OFFICIAL STATEMENT DATED AUGUST 8, 2001

NEW ISSUE
BOOK-ENTRY-ONLY

Ratings:
Moody's: Aaa
Standard & Poor's:AAA
See "RATINGS" herein

In the opinion of Mayer, Brown & Platt, Chicago, Illinois, Bond Counsel, under existing law, interest on the Bonds (as defined herein) is excludable from "gross income" under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of delivery of the Bonds for federal income tax purposes. Such excludability is conditioned on continuing compliance with the Tax Covenants (as defined herein). In the opinion of Bond Counsel, under existing law, interest on the Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax. See "TAX MATTERS."

$55,460,000

INDIANA BOND BANK

COMMON SCHOOL FUND ADVANCEMENT PURCHASE FUNDING BONDS OF 2001

Dated as of August 1, 2001 — Due as shown herein.

The Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds of 2001 (the "Bonds") are issuable only as fully registered bonds and, when issued, will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the Bonds will be made in book-entry-only form, in the denomination of $5,000 and integral multiples thereof. Purchasers of beneficial interests in the Bonds (the "Beneficial Owners") will not receive physical delivery of certificates representing their interests in the Bonds. Interest on the Bonds is payable on February 1 and August 1 of each year commencing February 1, 2002, and such interest, together with the principal of the Bonds, will be paid directly to DTC by BNY Trust Company of Missouri, as trustee (the "Trustee") under an Indenture of Trust dated August 1, 2001 (the "Indenture"), as defined and described herein, so long as DTC or its nominee is the registered owner of the Bonds. The Indiana Bond Bank (the "Bond Bank") may provide for payment of interest to any holder of Bonds in amounts aggregating $1,000,000 or more by wire transfer or other method which is acceptable to the Trustee and the Bondholder. The final disbursement of such payments to the Beneficial Owner of the Bonds will be the responsibility of the DTC Direct Participants and the Indirect Participants, all as defined and more fully described herein under "THE BONDS - Book-Entry-Only System."

Ambac

Payment of the principal of and interest on the Bonds when due will be insured by a policy of financial guaranty insurance to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

The Bonds are being issued by the Bond Bank for the principal purpose of providing funds to purchase, pursuant to the terms of the Advancement Acquisition and Administration Agreement (the "Acquisition Agreement"), all or a portion of certain agreements (the "Agreements") evidencing the right to make deductions from school tuition support payments appropriated by the General Assembly (the "General Assembly") of the State of Indiana (the "State") to repay certain advancements (the "Advancements") previously made from the State Common School Fund to certain Indiana school corporations (the "School Corporations"). The Advancements provided funds for the construction of school facilities and the purchase of school equipment. See "THE PURCHASE OF THE AGREEMENTS."

The Bonds maturing on and after February 1, 2012 are subject to optional redemption prior to maturity on any date on and after August 1, 2011 at the face amount thereof plus accrued interest to the date of redemption.

The Bonds maturing February 1, 2019, are subject to mandatory sinking fund redemption. See "THE BONDS - Mandatory Redemption."

The Bonds are payable from amounts deducted by the State Board of Education (the "Board of Education") and the State Board of Finance (the "Board of Finance") from school tuition support payments appropriated by the General Assembly of the State to School Corporations and available to pay the Advancements or, if such funds are not adequate, from amounts deducted from other funds appropriated by the General Assembly to such School Corporations and available for such purpose (such amounts referred to collectively herein as "Advancement Payments"), and are secured by the Agreements. The Agreements are being purchased by the Bond Bank pursuant to the Acquisition Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE OTHER SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE BOND BANK OR THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE STATE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. SEE "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS."

The Bonds are being offered by Legg Mason Wood Walker Incorporated and Raymond James & Associates, Inc., the Underwriters ("Underwriters") when, as and if issued by the Bond Bank and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality by Mayer, Brown & Platt, Chicago, Illinois, Bond Counsel. Certain legal matters will be passed on for the Bond Bank by its General Counsel, Barnes & Thornburg, Indianapolis, Indiana, and for the Underwriters by their counsel, Bose McKinney & Evans LLP, Indianapolis, Indiana. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about August 23, 2001.

Legg Mason Wood Walker
Incorporated

Raymond James & Associates, Inc.

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITY SCHEDULE

$55,460,000
INDIANA BOND BANK
COMMON SCHOOL FUND ADVANCEMENT PURCHASE FUNDING BONDS OF 2001

Year	Principal Amount	Interest Rate	Price	Year	Principal Amount	Interest Rate	Price
2/1/02	$1,545,000	4.750%	100.898%	2/1/09	$5,445,000	5.000%	105.128%
2/1/03	$3,135,000	4.750%	102.473%	2/1/10	$2,710,000	5.000%	104.907%
2/1/04	$4,495,000	4.750%	103.464%	2/1/11	$2,865,000	5.000%	104.590%
2/1/05	$6,755,000	5.000%	104.884%	2/1/12	$1,020,000	5.000%	103.806%
2/1/06	$7,235,000	5.000%	105.399%	2/1/13	$1,100,000	5.000%	102.837%
2/1/07	$8,970,000	4.000%	100.630%	2/1/14	$1,905,000	5.000%	102.038%
2/1/08	$5,410,000	5.000%	105.334%	2/1/15	$1,225,000	5.000%	101.247%

$1,645,000 Term Bonds Maturing February 1, 2019

Price 99.078%; Interest Rate: 5.000%

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized by the Indiana Bond Bank or by the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Indiana Bond Bank, the Trustee, the State Board of Education, the State Department of Education, the Indiana State Board of Finance, the State Budget Agency, the State Treasurer's Office, the State Auditor's Office, The Depository Trust Company, Ambac Assurance and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Underwriters. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Indiana Bond Bank, the State Board of Education, the State Department of Education, the Indiana State Board of Finance, the State Budget Agency, the State Treasurer's Office, The Depository Trust Company, Ambac Assurance or the State Auditor's Office since the date hereof.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

UPON ISSUANCE, THE BONDS WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW, AND WILL NOT BE LISTED ON ANY STOCK OR SECURITIES EXCHANGE. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER FEDERAL, STATE, MUNICIPAL OR OTHER GOVERNMENTAL ENTITY OR AGENCY WILL HAVE PASSED UPON THE ACCURACY OF THIS OFFICIAL STATEMENT OR APPROVED THE BONDS FOR SALE.

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Information set forth in this SUMMARY STATEMENT is qualified by the entire Official Statement. A full review of the entire Official Statement should be made by potential investors. Capitalized terms as used herein and not otherwise defined are defined in Appendix D.

SUMMARY STATEMENT

Description:	Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds of 2001.
Principal Amount:	$55,460,000
Denominations:	$5,000 and integral multiples thereof.
Dated Date:	August 1, 2001
Interest and Principal Payments:	Interest is payable semi-annually February 1 and August 1, of each year, commencing February 1, 2002 to February 1, 2015 inclusive for the Serial Bonds and mandatory sinking fund payments on February 1, 2016 through the final maturity on February 1, 2019 for the Term Bond as set forth on the inside cover page. Principal payments are payable on February 1 annually commencing February 1, 2002 until the final maturity payment.
Maturities:	The Bonds mature on February 1, of the years beginning February 1, 2002 with mandatory sinking fund payments commencing February 1, 2016, and continuing on each February 1 thereafter until and including February 1, 2019 as set forth on the inside cover page.
Form:	The Bonds will be issued only as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York. See "THE BONDS--Book-Entry-Only System."
Redemption:	The Bonds maturing on and after February 1, 2012 are subject to optional redemption prior to maturity on any date on and after August 1, 2011 at the face amount thereof plus accrued interest to the date of redemption.
Authority for Issuance:	IC 5-1.5, IC 21-1-5 and the Indenture of Trust between the Bond Bank and BNY Trust Company of Missouri, as trustee, dated as of August 1, 2001.
Use of Proceeds:	The Bonds will be issued by the Bond Bank principally to provide funds for the purchase of the Agreements and to pay the costs of issuing the Bonds. The Agreements have been selected by the Bond Bank from outstanding Advancements heretofore made to School Corporations from the Common School Fund. The Agreements selected for purchase by the Bond Bank, and the interest rates, principal balances and maturity dates of such Agreements are set forth in Appendix A hereto. The Bond Bank intends to purchase and pay for the Agreements listed in Appendix A on the date of closing and to deliver the Agreements (or evidence of the acquisition of a portion of the contract rights thereunder) to the Trustee on the date of closing. See "THE PURCHASE OF THE AGREEMENTS" and APPENDIX A.
Security:	**THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE BOND BANK OR THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.**

Insurance:	Payment of principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy issued by Ambac Assurance Corporation simultaneously with the issuance of the Bonds. See "FINANCIAL GUARANTY INSURANCE POLICY" and "THE BOND INSURER."
Continuing Disclosure:	As long as the State is committed by contract or other arrangement to facilitate payment of the obligations on the Bonds (or until such time as the Bonds may be defeased all as more fully set forth in the Undertaking), the State has agreed to provide or cause to be provided through the Bond Bank, as dissemination agent, information specified in subsections (b)(5)(i) and (b)(5)(ii) of Rule 15c2-12 of the Securities and Exchange Commission. The State has agreed to provide such information for distribution to each nationally recognized municipal securities information repository or in certain instances to the Municipal Securities Rulemaking Board and any state information depository designated by the State of Indiana. See "CONTINUING DISCLOSURE."

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INDIANA BOND BANK

$55,460,000
INDIANA BOND BANK
COMMON SCHOOL FUND ADVANCEMENT PURCHASE FUNDING BONDS OF 2001

INTRODUCTION

The purpose of this Official Statement is to set forth certain information concerning the issuance and sale by the Indiana Bond Bank (the "Bond Bank") of $55,460,000 Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds of 2001 (the "Bonds"). The Bonds are being issued pursuant to certain provisions of IC 21-1-5 and IC 5-1.5, as amended (the "Act"). Capitalized terms not otherwise defined are used herein as defined in Appendix D.

The Bonds are to be issued under and secured by an Indenture of Trust dated as of August 1, 2001 (the "Indenture"), between the Bond Bank and BNY Trust Company of Missouri, as trustee (the "Trustee"). The principal of, premium, if any, and interest on the Bonds are payable from moneys deducted from school tuition support payments appropriated by the General Assembly (the "General Assembly") of the State of Indiana (the "State") to the Indiana School Corporations listed in Appendix A (the "School Corporations") and available for such purpose or from other funds appropriated by the General Assembly to the School Corporations and available for such purpose (collectively, the "Advancement Payments"). The Advancement Payments are collected by the State Board of Education (the "Board of Education") and the State Board of Finance (the "Board of Finance") in accordance with IC 21-1-5-7 and pursuant to certain agreements (the “Agreements”) entered into between the Board of Education and the School Corporations and thereafter paid over to the Bond Bank pursuant to the Acquisition Agreement as more fully described herein. See “THE PURCHASE OF THE AGREEMENTS.”

The Bonds are being issued principally to finance the purchase by the Bond Bank of the Agreements pursuant to an Advancement Acquisition and Administration Agreement (the "Acquisition Agreement") by and among the State Board of Finance, the Treasurer of the State, the State Board of Education and the Bond Bank to be dated as of the date of delivery of the Bonds. The Acquisition Agreement constitutes a valid and enforceable contractual obligation, but is not a debt of the Board of Education, the Board of Finance, the Treasurer of the State or the State within the meaning of any constitutional prohibition against State indebtedness. The proceeds of the Bonds, after payment of costs of issuance, will be used to purchase the Agreements (including accrued interest on those Agreements), as set forth in Appendix A. The Bond Bank expects to purchase and pay for the Agreements listed in Appendix A on the day of closing and to deliver them or evidence of their purchase to the Trustee on the day of closing.

The purchase of the Agreements by the Bond Bank is made pursuant to the Acquisition Agreement. The Agreements, and all payments, proceeds, receipts, issues and benefits thereunder, are pledged under the Indenture to the Trustee for the benefit of the Owners of the Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE BOND BANK PAYABLE SOLELY FROM THE ADVANCEMENT PAYMENTS AND THE SOURCES DESCRIBED HEREIN. THE GENERAL ASSEMBLY IS UNDER NO OBLIGATION TO APPROPRIATE ANY SCHOOL TUITION SUPPORT PAYMENTS OR OTHER FUNDS TO ANY SCHOOL CORPORATION. THERE CAN BE NO ASSURANCE THAT ANY FUNDS SO APPROPRIATED WILL BE AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BONDS DO NOT CONSTITUTE A GENERAL OR MORAL OBLIGATION OF THE BOND BANK OR THE STATE AND DO NOT CONSTITUTE A DEBT, LIABILITY OR LOAN OF THE CREDIT OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF UNDER THE CONSTITUTION AND LAWS OF THE STATE OR A PLEDGE OF THE FAITH, CREDIT AND TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY DEBT SERVICE ON THE BONDS. THE BOND BANK WILL NOT ESTABLISH A RESERVE ACCOUNT TO SECURE THE BONDS. THE SOURCES OF PAYMENT OF AND SECURITY FOR THE BONDS ARE MORE FULLY DESCRIBED HEREIN. THE BOND BANK HAS NO TAXING POWER.

The Bonds and the interest thereon are special obligations of the Bond Bank payable solely from the Trust Estate, and shall be a valid claim of the owners thereof only against such Trust Estate, which Trust Estate is pledged for the equal and ratable payment of the Bonds, and shall be used for no other purpose than to pay the principal of and interest on the Bonds, except as otherwise expressly authorized in the Indenture. The Bond Bank has pledged and assigned to the Trustee all of the Bond Bank's right, title and interest in and to the Agreements, including the Advancement Payments, for the equal benefit of all the Bondholders. Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy issued by Ambac Assurance simultaneously with the issuance of the Bonds.

Brief descriptions of the Bonds, the Indenture, the Acquisition Agreement, the Agreements, and the Undertakings (as defined herein) are included in this Official Statement. All summaries herein of documents and agreements and all references herein to the Bonds are qualified in their entirety by reference to the documents and agreements themselves and the form of Bond included in the Indenture.

THE INDIANA BOND BANK

The Bond Bank was created in 1984 and is organized and existing under and by virtue of the Act as a separate body corporate and politic, constituting an instrumentality of the State for the public purposes set forth in the Act. The Bond Bank is not an agency of the State, is separate from the State in its corporate and sovereign capacity, and has no taxing powers. The Bond Bank is empowered under IC 5-1.5 and IC 21-1-5 to purchase the Agreements. Additional information about the Bond Bank can be obtained at the Bond Bank's website at http://www.state.in.us/bond.

Powers Under the Act

Under the Act, the Bond Bank has a perpetual existence and is granted all powers necessary, convenient or appropriate to carry out its public and corporate purposes including, without limitation, the power to do the following:

1. Make, enter into and enforce all contracts necessary, convenient or desirable for the purposes of the Bond Bank or pertaining to a purchase or a sale of qualified obligations or other investments or the performance of its duties and execution of its powers under the Act;

2. Purchase, acquire or hold qualified obligations at such prices and for such periods as the Bond Bank considers advisable;

3. Fix and establish terms and provisions upon which a purchase or loan will be made by the Bond Bank;

4. Prescribe the form of application or procedure required of a qualified entity for a purchase or loan and enter into agreements with qualified entities with respect to each purchase or loan;

5. Render and charge for services to a qualified entity in connection with a public or private sale of any qualified obligation, including advisory and other services;

6. Charge a qualified entity for costs and services in review or consideration of a proposed purchase, regardless of whether a qualified obligation is purchased, and fix, revise from time to time, charge and collect other program expenses properly attributable to qualified entities;

7. To the extent permitted by the Indenture or other agreements with the owners of bonds or notes of the Bond Bank, consent to modification of the rate of interest, time and payment of installments of principal or interest, security or any other term of a bond, note, contract or agreement of any kind to which the Bond Bank is a party;

8. Appoint and employ general or special counsel, accountants, financial advisors or experts, and all such other or different officers, agents and employees as it requires;

9. In connection with any purchase, consider the need for and desirability or eligibility of the qualified obligation to be purchased, the ability of the qualified entity to secure financing from other sources, the costs of such financing and the particular public improvement or purpose to be financed or refinanced with the proceeds of the qualified obligation to be purchased by the Bond Bank;

10. Temporarily invest moneys available until used for making purchases, in accordance with the Indenture or any other indenture authorizing the issuance of bonds or notes; and

11. Issue bonds or notes of the Bond Bank in accordance with the Act bearing fixed or variable rates of interest in aggregate principal amounts considered necessary by the Bond Bank to provide funds for any purposes under the Act; provided, that the total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed any aggregate limit imposed by the Act, currently fixed at $1,000,000,000. Such aggregate limit of $1,000,000,000 does not apply to (i) bonds or notes issued to fund or refund bonds or notes of the Bond Bank; (ii) bonds or notes issued for the purpose of purchasing an agreement executed by a qualified entity under Indiana Code 21-1-5; (iii) bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5; and (iv) bonds, notes or other obligations if funds and investments, and the anticipated earned interest on those funds and investments, are irrevocably set aside in amounts sufficient to pay the principal, interest and premium on the bonds, notes or obligations at their respective maturities or on the date or dates fixed for redemption.

Under the Act, the Bond Bank may not do any of the following:

1. Lend money other than to a qualified entity;

2. Purchase a security other than a qualified obligation to which a qualified entity is a party as issuer, borrower or lessee or make investments other than as permitted by the Act;

3. Deal in securities within the meaning of or subject to any securities law, securities exchange law or securities dealers law of the United States, the State or any other state or jurisdiction, domestic or foreign, except as authorized by the Act;

4. Emit bills of credit or accept deposits of money for time or demand deposit, administer trusts or engage in any form or manner, or in the conduct of, any private or commercial banking business, or act as a savings bank, savings and loan association or any other kind of financial institution; or

5. Engage in any form of private or commercial banking business.

Organization and Membership of Bond Bank

The membership of the Bond Bank consists of seven Directors: the Treasurer of State, serving as Chairman Ex Officio, the Director of the State Department of Financial Institutions, appointed by the Governor and serving as Director Ex Officio, and five Directors appointed by the Governor of the State. Each of the Directors appointed by the Governor must be a resident of the State and must have substantial expertise in the buying, selling and trading of municipal securities or in municipal administration or public facilities management. Each such Director will serve for a three-year term. Each such Director is also eligible for reappointment and may be removed for cause by the Governor. Any vacancy on the Board is filled by appointment of the Governor for the unexpired term only.
The Directors elect one Director to serve as Vice Chairman. The Directors also appoint and fix the duties and compensation of an Executive Director, who serves as both secretary and treasurer. The powers of the Bond Bank are vested in the Board of Directors, any four (4) of whom constitute a quorum. Action may be taken at any meeting of the Board by the affirmative vote of at least four (4) Directors. A vacancy on the Board does not impair the right of a quorum to exercise the powers and perform the duties of the Board of Directors of the Bond Bank.

The following persons, including those persons with the particular types of experience required by the Act, comprise the present Board of Directors of the Bond Bank:

Tim Berry, Treasurer of the State of Indiana, February 10, 1999-present, and Chairman Ex Officio. Residence: Indianapolis, Indiana. Member, Indiana State Board Finance; Vice Chairman, Indiana Housing Finance Authority; Secretary-Investment Manager, Indiana Board for Depositories; Member, Governing Board of the Indiana Department of Revenue; Treasurer, Indiana State Office Building Commission; Treasurer, Indiana Recreational Development Commission; Trustee, Indiana State Police Pension Fund; Board Member, Transportation Finance Authority; Allen County, Indiana Treasurer 1990-February 1999.

Charles W. Phillips, Director of the Indiana Department of Financial Institutions, 1989-present, and Director Ex Officio, serving at the pleasure of the Governor. Residence: New Albany, Indiana. Director Ex Officio, Indiana Housing Finance Authority; President, Floyd County Bank, New Albany, Indiana, 1962-1985; Former Examiner, Federal Deposit Insurance Corporation.

Joseph T. Morrow, Director; term expires July 1, 2003. Residence: Hammond, Indiana. Attorney; Chairman of the Board, Mercantile National Bank of Indiana, 1979-present; Chairman of the Board, First National Bank of Illinois, 1979-present; Chairman of the Board and General Counsel, Home State Bank of Crystal Lake, 1979-present.

Clark H. Byrum, Vice Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and President, The Key Corporation, Indianapolis, Indiana, 1977-present; Chairman of the Board, American State Bank of Lawrenceburg, Aurora and Greendale, Indiana, 1990-present; Board Member, NCB Corporation and NorCen Bank, 1986-present; Member, American Bankers Association; Member, Indiana Bankers Association; Member, National Association of Life Underwriter.

C. Kurt Zorn, Director; term expires July 1, 2003. Residence: Bloomington, Indiana. Professor of Public and Environmental Affairs, Indiana University, 1994-Present: Chairman, State Board of Tax Commissioners, January 1991-August 1994; Associate Professor, School of Public and Environmental Affairs, Indiana University, 1987-1994 (on leave 1989-1992); Member, American Economic Association; Member, National Tax Association; Member, Governmental Finance Officers Association.

Russell Breeden, III, Chairman; term expires July 1, 2003. Residence: Indianapolis, Indiana. Chairman of the Board and CEO, Community First Financial Group, Inc., 1993 to present; Director, English State Bank, 1993 to present; Chairman, Peoples Trust Bank Company, 1994 to present; Chairman, Peninsula Banking Group, 1995 to present; Chairman, Bay Cities National Bank, 1995 to present; Director and President, Bettenhausen Motorsports, Inc., 1999 to present.

Marni McKinney; Director, term expires July 1, 2004. Residence: Indianapolis, Indiana. Vice President, First Indiana Bank, 1984-1999; Chairman of the Board, 1999-present; President and CEO, The Somerset Group, 1995-2000; Vice Chairman and Chief Executive Officer, First Indiana Corporation, 1999-present; Board of Directors, The Children's Museum, Community Hospitals of Indiana, Inc.; Investment Committee Member, The Indianapolis Foundation.

Executive Director

J. June Midkiff was appointed Executive Director on October 12, 1999. Ms. Midkiff served as Director of Economic Development in the Office of Mayor Stephen Goldsmith for the City of Indianapolis for seven years. In that capacity, she managed various development projects throughout the City. Prior to joining the Mayor's office, she was Vice President of Merchants National Bank & Trust Company from 1973-1991, and was responsible for the management of the governmental accounts and cash management division.

Outstanding Indebtedness

Under separate trust indentures and other instruments authorized under the Act, the Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately $1,375,626,793 in separate program obligations. The total amount of bonds or notes of the Bond Bank outstanding at any one time may not exceed the aggregate limit currently imposed by the Act of $1,000,000,000. However, such aggregate limit does not apply to, inter alia, bonds, notes or other obligations not secured by a reserve fund under Indiana Code 5-1.5-5 or to the Bonds. The Bond Bank has previously issued and has outstanding as of the date of this Official Statement an aggregate principal amount of approximately $173,025,000 in separate program obligations which count against the $1,000,000,000 limitation. All previously issued obligations are secured separately and independently and do not constitute Bonds under the Indenture or for purposes of this Official Statement. The Bond Bank has never failed to punctually pay principal and interest on any previously issued obligations.

Further, as of the date of this Official Statement, the Bond Bank is considering undertaking other types of financing for qualified entities for purposes authorized by and in accordance with the procedures set forth in the Act. The obligations issued by the Bond Bank in connection with any and all such financings will be secured separately and independently from the Bonds and will not constitute Bonds under the Indenture or for the purposes of this Official Statement.

THE STATE OF INDIANA AND THE INDIANA BOND BANK

The purpose of the Bond Bank is to foster and promote, in accordance with the Act, the provision of adequate markets for the borrowing of funds for public projects and purposes by the State's political subdivisions and certain public educational institutions. The programs of the Bond Bank allow many of these entities throughout the State to achieve lower costs of borrowing than they could if acting alone. The Bond Bank's programs thus serve in promoting and providing the necessary infrastructure to support the expanding needs of the State's broad and diverse economy. The financial statements of the Bond Bank for fiscal years ended June 30, 2000, are available upon request. See "MISCELLANEOUS."

A more detailed discussion of the State and its financial condition and procedures is set forth in Appendix B, "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA." **However, the faith, credit and taxing power of the State are not pledged to the payment of the principal of, premium, if any, and interest on any of the Bonds, and the Bonds are not a debt, liability, loan of the credit or pledge of the faith and credit of the State.**

THE BOND INSURER

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $4,568,000,000 (unaudited) and statutory capital of approximately $2,787,000,000 (unaudited) as of March 31, 2001. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch, Inc. have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Bonds. Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the headings "The Financial Guaranty Insurance Policy" and "The Bond Insurer."

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information may be inspected and copied at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 7 World Trade Center, New York, New York 10048 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the public reference section of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. In addition, the aforementioned material may also be inspected at the offices of the New York Stock Exchange, Inc. (the "NYSE") at 20 Broad Street, New York, New York 10005. The Company's Common Stock is listed on the NYSE.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number at One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the Commission (File No. 1-10777) are incorporated by reference in this Official Statement:

1) The Company's Current Report on Form 8-K dated January 24, 2001 and filed on January 24, 2001;

2) The Company's Current Report on Form 8-K dated March 19, 2001 and filed on March 19, 2001;

3) The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000 and filed on March 28, 2001; and

4) The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2001 and filed on May 15, 2001.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information."**

THE FINANCIAL GUARANTY INSURANCE POLICY

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the "Financial Guaranty Insurance Policy") relating to the Bonds effective as of the date of issuance of the Bonds. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on a Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recover if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. Payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. Payment of any redemption, prepayment or acceleration premium.

3. Nonpayment of principal or interest caused by the insolvency or negligence of any Trustee or Paying Agent, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Bond and will be fully subrogated to the surrendering Holder's rights to payment.

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STATE BOARD OF EDUCATION

The Board of Education was established in 1945 and is organized, exists and is operated pursuant to IC 20-1-1. The Board of Education consists of the State Superintendent of Public Instruction and ten other members, each of whom is appointed by the Governor. The Superintendent of Public Instruction serves as chairman of the Board of Education. Appointed board members serve terms of four years.

The current membership of the Board of Education is as follows:

Dr. Suellen Reed Superintendent of Public Instruction	Ms. Susan E. Brace Fort Wayne, Indiana	Mr. Darvin Stilwell Boonville, Indiana
Dr. David O. Dickson Hammond Public Schools	Ms. Connie Blackketter Rensselaer, Indiana	Ms. Barbara S. Dooley Georgetown, Indiana
Ms. Sandra Kirts Cantrell Columbus, Indiana	Mr. Robert W. Lazard Crowe Chizek and Company LLP	Mr. Gordon Pendleton Corydon, Indiana
Mr. Richard J. Rice Mishawaka, Indiana	Mr. Daniel Tanoos Vigo County School Corporation	

There is one vacancy on the Board of Education.

The State Superintendent of Public Instruction is Dr. Suellen K. Reed.

In accordance with PL 28-1992, the Board of Education requested that the Board of Finance sell the Agreements to the Bond Bank pursuant to IC 21-1-5-7. The Board of Education and the Board of Finance shall reduce each distribution of school tuition support payments to pay advancements made to School Corporations. Pursuant to the Acquisition Agreement and IC 21-1-5-11, the Board of Education is permitted to deduct the Advancement Payments for payment to the Bond Bank.

STATE DEPARTMENT OF EDUCATION

The Indiana State Department of Education (the "Department of Education") was established in 1984. The Superintendent of Public Instruction is the Director of the Department of Education.

The Department of Education is required by PL 28-1992, to advise the Board of Education in making its request to the Board of Finance to sell the Agreements to the Bond Bank. The Department of Education so advised the Board of Education.

STATE BOARD OF FINANCE

The Governor, the Auditor of State, and the Treasurer of State constitute the Board of Finance. The Board of Finance elects from its membership a president. The Treasurer currently serves as the President of the Board. The Auditor of State serves as Secretary of the Board of Finance.

The Board of Finance has advisory supervision of the safekeeping of all funds coming into the State Treasury and all other funds belonging to the State coming into the possession of any state officer or agency.

The Board of Finance is empowered to sell, transfer, or liquidate the Agreements, pursuant to PL 28-1992 and PL 164-1998. To effect the sale, the Board of Finance will enter into the Acquisition Agreement on the date of delivery of the Bonds.

STATE BUDGET AGENCY

The State Budget Agency (the "Budget Agency") was established as a State Agency in 1961. The State Budget Director, appointed by the Governor to serve at his pleasure, is the chief executive officer of the Budget Agency. The current State Budget Director is Betty Cockrum.

A State Budget Committee (the "Budget Committee"), consisting of five regular members and four alternate members, cooperates in the preparation of a recommended budget report and budget bill, serves as liaison between the legislative and executive departments of state government, and provides information to the General Assembly with respect to the management of State fiscal affairs. The Budget Committee consists of the State Budget Director, two State Senators appointed by the President

Pro-Tem of the Senate, one of whom is nominated by the leader of the minority political party in the Senate, and two State Representatives appointed by the Speaker of the House of Representatives, one of whom is nominated by the leader of the minority political party in the House of Representatives. All members, except the State Budget Director, serve at the will and pleasure of the respective appointing leadership or until such member's term as a member of the General Assembly expires, whichever is shorter.

Pursuant to PL 28-1992, each proposed sale, transfer, or liquidation must be reviewed by the Budget Committee and approved by the Budget Agency. The Budget Committee has reviewed the Agreements and the Budget Agency has approved the sale of the Agreements.

THE COMMON SCHOOL FUND

The Common School Fund was created by Article 8, Section 2, of the Indiana Constitution (the "Constitution"). The Constitution provides for funding the Common School Fund from a number of other funds, many of which no longer exist, as well as fines assessed for breaches of penal laws of the State, forfeitures, and funds which escheat to the State. The Constitution provides that the Common School Fund shall never be diminished in principal amount. NO PORTION OF THE COMMON SCHOOL FUND IS AVAILABLE TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS.

The Board of Education is authorized to advance money in the Common School Fund to School Corporations to be used for school building construction and educational technology programs. Advancements with respect to school building construction programs may not exceed the greater of $15,000,000 or the product of $15,000 multiplied by the number of pupils accommodated as a result of the school construction building program unless the School Corporation has sustained a loss caused by fire, wind, cyclone or other disaster, in which event such limitation may be waived by the Board of Education after consulting with the Department of Education and the Budget Agency. Advances for educational technology programs are not limited in amount other than the availability of funds in the Common School Fund set aside for this purpose and the ability of the School Corporation to repay the Advancement in accordance with the terms of its Agreement.

Money from the Common School Fund may be advanced to school corporation or school building construction programs for periods of time not exceeding 25 years. None of the Agreements being purchased may be prepaid. The State Board of Finance periodically establishes a rate or rates of interest payable on advances for school building construction programs. However, such interest rates are limited under IC 21-1-5-5 to (i) four percent (4%) for Advancements made to School Corporations with outstanding Advancements bearing rates of seven and one-half percent (7½%) or more, and (ii) seven and one-half percent (7½%) for Advancements made to School Corporations without outstanding Advancements.

Money may not be advanced to school corporations for educational technology programs for periods exceeding five years. The Board of Finance periodically establishes rates of interest payable on Advancements for educational technology programs which may not be less than one percent (1%) and which may not exceed four percent(4%).

Currently, the interest rate with respect to Advancements relating to school building construction programs is four percent (4%). The interest rate on Advancements relating to educational technology programs is one percent (1%).

To provide for the repayment of any Advancement, the Board of Education and the Board of Finance are authorized in their sole discretion to withhold from funds due to the school corporation which received an Advancement an amount of money that is necessary to repay such Advancement and interest thereon over the term of the Agreement. The Advancement Payments necessary to repay the Advancement to a school corporation are deducted from school tuition support payments appropriated by the General Assembly to each school corporation as available for such purpose and other moneys appropriated by the General Assembly to such school corporation as available for such purpose. State school tuition support is a line item in the State budget, and is funded from the State's General and Property Tax Replacement Fund. See: Appendix B -- "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA", "State Revenues and Expenses" and "Financial Results of Operations." State school tuition support is the largest single revenue source for most School Corporations.

THE PURCHASE OF THE AGREEMENTS

Pursuant to P.L. 28-1992 and P.L. 164-1996, the General Assembly authorized the Board of Finance, upon the request of the Board of Education, on the recommendation of the Department of Education, to sell, transfer or liquidate the Agreements to the Bond Bank. IC 21-1-5-7 provides that the Agreements do not constitute a debt of the State within the meaning of the constitutional prohibition against State indebtedness.

The Board of Education, acting upon the recommendation of the Department of Education, has requested that the Board of Finance sell all or a portion of certain Agreements to the Bond Bank. The sale of such Agreements has been reviewed by the Budget Committee and has been approved by the Budget Agency.

A list of the Agreements being sold by the Board of Finance to the Bond Bank, and the aggregate principal amount outstanding and rate of interest on each such Agreement are set forth in Appendix A. No future Advancements made from the Common School Fund will be used to secure the Bonds. No portion of the Common School Fund will be available to pay debt service on the Bonds.

The Agreements are being sold to provide additional funds to the Common School Fund for the purpose of making future Advancements from the Common School Fund. The purchase price for the Agreements will be paid to the Treasurer of the State for deposit in the Common School Fund. The purchase will not have an effect on School Corporations which have outstanding Advancements or change the way in which outstanding Advancements are structured or administered.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Limited Obligation. The Bonds are special obligations of the Bond Bank, payable as to principal, premium, if any, and interest solely from the Trust Estate and shall be a valid claim of the owners thereof only against such Trust Estate, which Trust Estate is pledged for the equal and ratable payment of the Bonds and shall be used for no other purpose than to pay the principal of, premium, if any, and interest on the Bonds, except as otherwise expressly authorized in the Indenture. The Bonds and the interest thereon shall never constitute an obligation of the State, any political subdivision thereof, including the School Corporations, or the Bond Bank within the meaning of any constitutional or statutory provision or limitation on indebtedness. The Bonds and the interest thereon shall never constitute nor give rise to a charge against the general credit, funds or assets of the State, any political subdivision thereof including the School Corporations, the Bond Bank or the taxing powers of the State or any political subdivision thereof, including the School Corporations. No holder of any Bond may compel the exercise of the taxing power of the State or any political subdivision thereof, including the School Corporations to pay principal of, premium, if any, or interest on the Bonds. No portion of the Common School Fund is available to pay the Bonds. The Bond Bank has no taxing power.

The ability of the Bond Bank to pay principal of, premium, if any, and interest on the Bonds depends solely upon the receipt by the Bond Bank of Advancement Payments. There can be no representation or assurance that the Bond Bank will receive sufficient Advancement Payments to make the required payments of principal of redemption premium, if any, and interest on the Bonds. The receipt of such Advancement Payments by the Bond Bank is subject to, among other things, future economic conditions and other conditions affecting the State and the School Corporations which are variable and cannot be predicted.

Advancement Payments Subject to Biennial Appropriation. The Advancements to School Corporations from the Common School Fund are repayable from the Advancement Payments. State school tuition support, the primary source of the Advancement Payments, is a line item in the State's biennial budget, and must be approved by the General Assembly. State school tuition support payments currently are the primary source of funding for most School Corporations in the State. There can be no assurance that sufficient funds will be appropriated by the General Assembly for State school tuition support to provide the deductions necessary to support the Board of Education's rights under the Agreements and the Board of Finance's obligations under the Acquisition Agreement. Bondholders have no right to have taxes levied or to compel appropriations by the General Assembly to pay the Bonds. Moreover, there can be no assurance that any funds so appropriated will be available to make Advancement Payments. If sufficient funds are not appropriated and available, the Advancement Payments will be insufficient to pay principal of, premium, if any, or interest on the Bonds. See Appendix B for the financial and economic information relating to the State.

Remedies Limited. The remedies available to the Trustee, to the Bond Bank or to the Owners of the Bonds upon an event of default under the Indenture, the Agreements or the Acquisition Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the United States Bankruptcy Code), the remedies provided in the Indenture may not be readily available or may be limited. Further, the Trustee is required to pursue certain courses of action upon the written request of the Owners of fixed percentages of the Bonds Outstanding. There is no assurance that the interests of the owners of such percentage of the Bonds Outstanding will be identical to those of the Owners of all other Bonds. Nonetheless, the request of the Owners of the applicable percentage of the principal amount of all outstanding Bonds is sufficient to direct the actions of the Trustee.

Security for the Bonds. The Board of Finance will, pursuant to the Acquisition Agreement, sell a portion of its rights, title, and interest in and to each of the Agreements to the Bond Bank. The Agreements and the Act permit the Board of Education and the Board of Finance to deduct the Advancement Payments. The Acquisition Agreement requires the Board of Finance, the Treasurer of the State, and the Board of Education, as applicable, to take all actions in the best interest of the Bond Bank and exercise for the benefit of the Bond Bank, to the maximum extent permitted under the Indiana Code, all rights (including without limitation the rights under the Act) and options available under the Indiana Code relating in any way to (i) the withholding by any of them of funds of the State due any School Corporation that is a party to an acquired Agreement; (ii) the collection of amounts due from the School Corporation by reason of being a party to an acquired Agreement; and (iii) the remittance and payment of such amounts to the Bond Bank by reason of its purchase and ownership of the Agreements. The Bond Bank has assigned its rights under the Acquisition Agreement to the Trustee for the benefit of the Owners of the Bonds.

NO MORAL OBLIGATION IS PLEDGED TO THE BONDS. THE BOND BANK HAS NO TAXING POWER.

THE BONDS

General Description. The Bonds are issuable under the Indenture as fully registered bonds in denominations of $5,000 or any integral multiple thereof. Each Bond will carry an original issue date of August 1, 2001. If any Bond is authenticated prior to January 15, 2002, it will bear interest from August 1, 2001. Each Bond authenticated on or after January 15, 2002, will bear interest from the most recent Interest Payment Date on which interest was paid prior to the date of authentication of such Bond, unless the Bond is authenticated after a Record Date but prior to the related Interest Payment Date. Bonds authenticated after a Record Date but prior to the related Interest Payment Date will bear interest from the related Interest Payment Date.

The Bonds will be issued in the aggregate principal amount of $55,460,000, and shall mature and bear interest as set forth on the inside cover page of this Official Statement.

For so long as the Bonds are registered in the name of The Depository Trust Company ("DTC") or its nominee, payments of the principal of, premium, if any, and interest on the Bonds will be paid only to DTC or its nominee. Interest on the Bonds will be paid on each Interest Payment Date by wire transfer to DTC or its nominee. Principal of, and premium, if any, will be paid to DTC or its nominee upon presentation and surrender of the Bonds at the principal office of the Trustee. Neither the Bond Bank nor the Trustee will have any responsibility for the Beneficial Owner's receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant, of any payments of principal of, premium, if any, or interest on the Bonds. See "THE BONDS--Book-Entry-Only System."

If the Bonds are no longer registered in the name of DTC or its nominee, or any other clearing agency, interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing on the first Interest Payment Date after the Bonds are no longer so registered by check issued by the Paying Agent dated the due date and mailed one Business Day prior to each Interest Payment Date to the registered Owners as of the close of business on the most recent Record Date or by wire transfer to Owners of $1,000,000 or more in principal amount of the Bonds upon written request of such owners. Principal on the Bonds will be payable on the Maturity Date of such Bond upon presentation of the Bond at the principal corporate trust office of the Trustee.

Optional Redemption. The Bonds maturing on and after February 1, 2012 are subject to optional redemption prior to maturity on any date on and after August 1, 2011 at the face amount thereof plus accrued interest to the date of redemption.

Mandatory Redemption. The Bonds maturing on February 1, 2019 are subject to mandatory sinking fund redemption prior to maturity at a price equal to the principal amount thereof, plus accrued interest to the redemption date, on the dates indicated below:

Date	Principal Amount
February 1, 2016	$390,000
February 1, 2017	$405,000
February 1, 2018	$415,000
February 1, 2019	$435,000

The Trustee is required to credit against the mandatory sinking fund requirement for Bonds maturing February 1, 2019, as set forth above, any Bonds of such maturity delivered to the Trustee for cancellation or purchased for cancellation by the Trustee and canceled by the Trustee and not theretofore applied as a credit against any redemption obligation. Each Bond of such maturity so delivered or canceled shall be credited by the Trustee at one hundred percent (100%) of the principal amount thereof against the mandatory sinking fund obligation on such mandatory redemption date. Any amount in excess of such amount shall be credited to future redemption obligations, and the principal amount of Bonds of such maturity to be redeemed by operation of the mandatory sinking fund requirements shall be accordingly reduced; provided, however, the Trustee shall only credit such Bonds to the extent they are received on or before 45 days preceding the applicable mandatory redemption date as set forth above.

Notice of Redemption. Notice of any redemption, identifying the Bonds to be redeemed, will be given by the Trustee at least 30 days but not more than 60 days prior to the Redemption Date by mailing a copy of the redemption notice by registered or certified mail to the registered Owner of each Bond to be redeemed at the address shown on the Bond Register.

For so long as the Bonds are registered in the name of DTC or its nominee, the Trustee will send notices of redemption of Bonds only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for any Beneficial Owner's receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant, of any notices of redemption. See "THE BONDS--Book-Entry-Only System."

Redemption Payments. Prior to the date fixed for redemption, there must be on deposit with the Trustee sufficient funds to pay the redemption price of the Bonds subject to redemption, together with the premium, if any, and the accrued interest on the Bonds to the redemption date. After the redemption date, if sufficient funds have been deposited with the Trustee, interest will cease to accrue on the Bonds that have been called for redemption.

For so long as the Bonds are registered in the name of DTC or its nominee, redemption payments on the Bonds will be paid by the Trustee only to DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for any Beneficial Owner's receipt from DTC or its nominee, or from any DTC Direct Participant or Indirect Participant, of any redemption payments on any Bonds. See 'THE BONDS--Book-Entry-Only System."

Selection of Bonds for Redemption. If less than all of the Bonds are to be redeemed, the Bonds shall be redeemed only in whole multiples of $5,000. For purposes of redemption, each $5,000 of principal shall be considered as a Bond. If less than all of the Bonds shall be called for redemption, the principal amount and maturity of the particular Bonds to be redeemed shall be selected by the Bond Bank. The Trustee shall select the particular Bonds to be redeemed by lot within a maturity in such manner as the Trustee may determine.

For so long as the Bonds are registered in the name of DTC or its nominee, the Trustee will select for redemption only Bonds or portions thereof registered in the name of DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank nor the Trustee will have any responsibility for selecting for redemption any Beneficial Owner's interests in the Bonds. See "THE BONDS--Book-Entry-Only System."

Exchange and Transfer. The Bonds may be transferred or exchanged at the principal corporate trust office of the Trustee, to the extent and upon the conditions set forth in the Indenture, including the payment of a sum sufficient to cover any tax or other governmental charge for any such transfer or exchange that may be imposed upon the Bond Bank or the Trustee.

In the event any Bond is mutilated, lost, stolen or destroyed, the Bond Bank may issue and the Trustee may authenticate a new Bond in accordance with the provisions therefor in the Indenture including an indemnity satisfactory to both, and the Bond Bank and the Trustee may charge the holder or Owner of such Bonds for its reasonable fees and expenses in connection therewith, including the cost of having a replacement Bond printed.

For so long as the Bonds are registered in the name of DTC or its nominee, the Trustee will transfer and exchange Bonds only on behalf of DTC or its nominee, in accordance with the preceding paragraph. Neither the Bond Bank, nor the Trustee will have any responsibility for transferring or exchanging any Beneficial Owner's interests in the Bonds. See "THE BONDS--Book-Entry-Only System."

Book-Entry System. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations ("Direct Participants"). DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co., effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identify of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Bank as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Bond Bank, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Bond Bank or the Trustee, disbursements of such payments to Direct Participants shall be the responsibility of DTC, and disbursements of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Bond Bank or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered.

The Bond Bank may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depositor). In that event, Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Bond Bank believes to be reliable, but the Bond Bank takes no responsibility for the accuracy thereof.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds related to acquiring the Agreements and paying costs incidental to the sale and delivery of the Bonds are estimated as shown below:

Sources of Funds:	
Principal Amount of Bonds	$55,460,000.00
Reoffering Premium	$ 1,965,385.45
Accrued Interest on the Bonds	$ 162,577.71
TOTAL SOURCES	$57,587,963.16
Uses of Funds:	
Acquisition of Agreements	$56,628,882.54
Accrued Interest	$ 162,577.71
Cost of Issuance	$ 287,750.00
Bond Insurance Premium	$ 125,027.91
Underwriter's Discount	$ 383,725.00
TOTAL USES	$57,587,963.16

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OPERATION OF FUNDS AND ACCOUNTS

The Indenture establishes the following Funds to be held by the Trustee:

A. General Fund, consisting of the following:

1. General Account
2. Redemption Account

B. Cost of Issuance Fund

C. Acquisition Fund

D. Rebate Fund

General Fund-General Account. The Trustee will deposit in the General Account of the General Fund from Bond proceeds an amount equal to $162,577.71 representing accrued interest on the Bonds. The Trustee shall also deposit in the General Fund - General Account all Advancement Payments, all income or gain on Investment Securities attributable to any fund or account (except the Rebate Account) and all other Revenues.

Moneys in the General Account of the General Fund will be disbursed as follows: (i) not later than thirty days after the end of each Bond Year, such amounts, if any, as may be required to be transferred to the Rebate Fund; (ii) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary to pay interest due to be paid on Outstanding Bonds on such Interest Payment Date; (iii) not later than 10:00 a.m., Indianapolis time, one (1) Business Day prior to each Interest Payment Date, to the Trustee such amounts as may be necessary, if any, to pay principal due to be paid on Outstanding Bonds on such Interest Payment Date; (iv) at such times as may be necessary, to pay Program Expenses, but only (a) upon the receipt by the Trustee of a requisition from an Authorized Officer, describing the Program Expense for which such payment is sought and the amount thereof and certifying that such Program Expense is promptly payable, and (b) to the extent that any such Program Expense, when added to all other Program Expenses paid or payable following the date of the most recent Cash Flow Certificate, does not exceed the amount of such Program Expenses contemplated by such Cash Flow Certificate.

General Fund-Redemption Account. There shall be deposited in the Redemption Account all moneys received as a result of a default under any of the Agreements. Moneys in the Redemption Account of the General Fund will be distributed as follows: (i) on the second Business Day prior to any Interest Payment Date, if amounts in the General Account of the General Fund are not sufficient to make the payments of principal and interest required to be made on such date, to the General Account of the General Fund amounts in the Redemption Account available for such transfer and not otherwise committed under the Indenture to the redemption of Bonds for which notice of redemption has been given; and (ii) after provision has been made for the payments required under (i) above to (a) redeem Bonds of such maturity or maturities as may be directed by an Authorized Officer if such Bonds are then subject to redemption or (b) purchase Bonds of such maturity or maturities as directed by an Authorized Officer at the most advantageous price obtainable with reasonable diligence, whether or not such Bonds shall then be subject to redemption. Such price may not, however, exceed the redemption price which would be payable on the next ensuing redemption date on which the Bonds so purchased are redeemable according to their terms unless the Bond Bank provides the Trustee with a Positive Cash Flow Certificate. The Trustee shall pay the interest accrued on any Bonds so purchased to the date of delivery thereof from the General Account of the General Fund and the balance of the purchase price from the Redemption Account, but no such purchase shall be made by the Trustee within the period of forty-five (45) days next preceding an Interest Payment Date or a date on which such Bonds are subject to redemption.

At the direction of the Bond Bank, the Trustee may transfer any amounts in the Redemption Account to the General Account of the General Fund provided that the Trustee is provided with a Positive Cash Flow Certificate taking into account such transfer.

Cost of Issuance Fund. The Trustee shall deposit $287,750.00 of the proceeds of the Bonds in the Cost of Issuance Fund for the purpose of paying the costs associated with issuing the Bonds. All funds in the Cost of Issuance Fund which are not expended for Costs of Issuance or which have not been expended for Costs of Issuance prior to the date six (6) months after the date of delivery of the Bonds, shall be transferred to the General Account of the General Fund.

Acquisition Fund. The Trustee will deposit in the Acquisition Fund all available proceeds of the Bonds after the deposits to the Cost of Issuance Fund and the General Account of the General Fund set forth in the Indenture, together with all payments under any Agreements due and owing as of the delivery date of the Bonds. Moneys in the Acquisition Fund shall be disbursed to purchase the Agreements in accordance with procedures established for such purposes pursuant to the Indenture and upon submission of requisitions by the Bond Bank to the effect that all requirements and conditions with respect to such purchases have been met.

Rebate Fund. Pursuant to the Indenture, the Trustee will establish and maintain so long as any Bonds are Outstanding, a separate Account to be known as the Rebate Fund.

The Rebate Fund will not be pledged as security for the payment of the principal of, premium, if any, and interest on any series of Bonds and all moneys therein shall remain in the Rebate Fund until either (a) the money is disbursed to the United States of America or (b) a determination is made by the Trustee that such funds are not owed to the United States of America under the rebate requirements of Section 148 of the Code.

Investment of Funds. The Trustee shall as continuously as reasonably possible invest and reinvest the funds on deposit in the Funds and Accounts from time to time in Investment Securities as may be directed by the Bond Bank. Income or interest earned or gains realized in any Fund or Account due to such investment will be credited to the General Account of the General Fund, except that earnings or gains in the Rebate Account will remain in such account.

THE BONDS AS LEGAL INVESTMENTS

Under the Act, all financial institutions, investment companies, insurance companies and associations, executors, administrators, guardians, trustees and other fiduciaries in the State may legally invest sinking funds, money or other funds belonging to or within the control of such fiduciaries in the bonds and notes of the Bond Bank issued under the Act.

LITIGATION

Bond Bank. To the Bond Bank's knowledge, there is not now pending or threatened any litigation restraining, questioning or enjoining the issuance, sale, execution or delivery of the Bonds or prohibiting the Bond Bank from purchasing the Agreements with the proceeds of such Bonds or in any way contesting or affecting the validity of the Bonds, any proceedings of the Bond Bank taken with respect to the issuance or sale thereof or the pledge or application of any money or security provided for the payment of the Bonds. Neither the creation, organization or existence of the Bond Bank nor the title of any of the present Directors or other officers of the Bond Bank to their respective offices is being contested.

Board of Finance. To the Board of Finance's knowledge, there is not now pending or threatened any litigation restraining, questioning or enjoining the issuance, sale, execution or delivery of the Agreements or prohibiting the Board of Finance from selling the Agreements or in any way contesting or affecting the validity of the Agreements, or any proceedings of the Board of Finance taken with respect to the sale thereof. Neither the creation, organization or existence of the Board of Finance nor the title of any of the present members of the Board of Finance to their respective offices is being contested.

TAX MATTERS

In the opinion of Mayer Brown & Platt, Chicago, Illinois, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income under Section 103 of the Internal Revenue Code of 1986, as amended and in effect on the date of delivery of the Bonds (the "Code"), for federal income tax purposes and the Bonds are not "private activity bonds" under Section 141 of the Code. This opinion relates only to the excludibility from gross income of interest on the Bonds for federal income tax purposes under Section 103 of the Code and is conditioned on continuing compliance with the Tax Covenants (hereinafter defined). Failure to comply with the Tax Covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. See Appendix E for the form of Opinion of Bond Counsel.

In the opinion of Mayer Brown & Platt, Chicago, Illinois, Bond Counsel, under existing law, interest on the Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax. See Appendix E for the form of Opinion of Bond Counsel.

In rendering the foregoing opinions with respect to the Bonds, Bond Counsel will rely on, and assume the accuracy of, certain representations and certifications and compliance with the Tax Covenants of the Bond Bank, the State of Indiana, and certain divisions and departments of the State of Indiana which are intended to evidence and assure that the Bonds are and will remain obligations the interest on which is excluded from gross income for federal income tax purposes. Bond Counsel will not independently verify the accuracy of such certifications and representations, and will not monitor compliance with such covenants.

The Code imposes certain requirements which must be met subsequent to the issuance of the Bonds as a condition to the excludibility from gross income of interest on the Bonds for federal income tax purposes. Should the Bonds bear interest that is not excludable from gross income for federal income tax purposes, the market value of the Bonds would be materially and adversely affected. The Tax Covenants include covenants that: (i) the Bond Bank will not take or fail to take any action with respect to the Bonds, if such action or omission would result in the interest on the Bonds becoming includable in gross income for federal income tax purposes under Section 103 of the Code, and the Bond Bank will not act in any other manner which would adversely affect such excludibility of interest on the Bonds from gross income for federal income tax purposes; (ii) the Bond Bank will not make any investment or do any other act or thing during the period that the Bonds are outstanding which would cause the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the Code; and (iii) if required by the Code, the Bond Bank will rebate any necessary amounts to the United States of America in compliance with Section 148 of the Code. An event of taxability is not an event of default under the Indenture.

The interest on the Bonds is not a specific preference item for purposes of federal individual or corporate alternative minimum taxes. However, interest on the Bonds is included in adjusted current earnings in calculating alternative minimum taxable income for corporations (as defined for federal income tax purposes).

Although Bond Counsel will render an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes and exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax, the accrual or receipt of interest of the Bonds may otherwise affect a Bondholder's federal income tax or state tax liability. The nature and extent of these other tax consequences will depend upon a Bondholder's particular tax status and such Bondholder's other items of income or deduction. Under the Code, interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to the branch profits tax imposed by Section 884 of the Code, and interest on the Bonds could be subject to the tax imposed by Section 1375 of the Code on excess net passive income of certain S corporations. Taxpayers who may be affected by such other tax consequences additionally include financial institutions, property and casualty insurance companies, individual recipients of Social Security or railroad retirement benefits, individuals otherwise eligible for earned income credit, and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry the Bonds. Bond Counsel expresses no opinion regarding any other such tax consequences. Prospective purchasers of the Bonds should consult their tax advisors with regard to the tax consequences of owning the Bonds.

Further, from time to time, legislative proposals are pending in Congress which, if enacted, would alter or amend one or more of the federal tax consequences referred to above in certain respects or would adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal may be enacted, and there can be no assurance that such proposal would not apply to obligations (such as the Bonds) issued prior to enactment of such proposal.

The discussion of tax matters in this Official Statement applies only in the case of purchasers of the Bonds at their original issuance and at the respective prices indicated on the cover page. It does not address any other tax consequences such as, among others, the consequences of the existence of any market discount to subsequent purchasers of the Bonds.

ORIGINAL ISSUE DISCOUNT

The initial public offering price of the Bonds maturing on February 1, 2019 (the "Discount Bonds"), is less than the principal amount payable at maturity. As a result the Discount Bonds will be considered to be issued with original issue discount. The difference between the initial public offering price of the Discount Bonds, as set forth on the inside cover of this Official Statement (assuming it is the first price at which a substantial amount of that maturity is sold) (the "Issue Price" for such maturity), and the amount payable at maturity of the Discount Bonds will be treated as "original issue discount." A taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price for such maturity and who holds such Discount Bond to maturity may treat the full amount of original issue discount as interest which is excludable from the gross income of the owner of that Discount Bond for federal income tax purposes and will not, under present federal income tax law, realize taxable capital gain upon payment of the Discount Bond at maturity.

The original issue discount on each of the Discount Bonds is treated as accruing daily over the term of such Discount Bond on the basis of the yield to maturity determined on the basis of compounding at the end of each six-month period (or shorter period from the date of the original issue) ending on February 1 and August 1 (with straight line interpolation between compounding dates).

Section 1288 of the Code provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner's tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). Owners of Discount Bonds who dispose of Discount Bonds prior to maturity should consult their tax advisors concerning the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bonds prior to maturity.

As described above under "TAX MATTERS," the original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. Owners of any Discount Bonds should be aware that the accrual of original issue discount in each year may result in a tax liability from these collateral tax consequences even though the owners of such Discount Bonds will not receive a corresponding cash payment until a year later.

Owners who purchase Discount Bonds in the initial public offering but at a price different from the Issue Price for such maturity should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

The Code contains certain provisions relating to the accrual of original issue discount in the case of subsequent purchasers of bonds such as the Discount Bonds. Owners who do not purchase Discount Bonds in the initial offering should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible under the applicable provisions governing the determination of state or local income taxes that accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

AMORTIZABLE BOND PREMIUM

The initial offering price of the Bonds maturing on February 1 in the years 2002 through 2015, inclusive (collectively, the "Premium Bonds"), is greater than the principal amount payable at maturity. As a result, the Premium Bonds will be considered to be issued with amortizable bond premium (the "Bond Premium"). An owner who acquires a Premium Bond in the initial offering will be required to adjust the owner's basis in the Premium Bond downward as a result of the Bond Premium, pursuant to Section 1016(a)(5) of the Code. Such adjusted tax basis will be used to determine taxable gain or loss upon the disposition of the Premium Bonds (including sale, redemption or payment at maturity). The amount of amortizable Bond Premium will be computed on the basis of the taxpayer's yield to maturity, with compounding at the end of each accrual period. Rules for determining (i) the amount of amortizable Bond Premium and (ii) the amount amortizable in a particular year are set forth in Section 171(b) of the Code. No income tax deduction for the amount of amortizable Bond Premium will be allowed pursuant to Section 171(a)(2) of the Code, but amortization of Bond Premium may be taken into account as a reduction in the amount of tax-exempt income for purposes of determining other tax consequences of owning the Premium Bonds. Owners of the Bonds should consult their tax advisors with respect to the precise determination for federal income tax purposes of the treatment of Bond Premium upon the sale or other disposition of such Premium Bonds and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Special rules governing the treatment of Bond Premium, which are applicable to dealers in tax-exempt securities are found at Section 75 of the Code. Dealers in tax-exempt securities are urged to consult their own tax advisors concerning treatment of Bond Premium.

LEGAL MATTERS

Certain legal matters incident to the authorization and issuance of the Bonds by the Bond Bank are subject to the approval of Mayer, Brown & Platt, Chicago, Illinois, Bond Counsel, whose approving opinion will be delivered with the Bonds. Certain legal matters will be passed upon for the Bond Bank by its General Counsel, Barnes & Thornburg, Indianapolis, Indiana, and for the State of Indiana by its Disclosure Counsel, Krieg DeVault Alexander & Capehart LLP, Indianapolis, Indiana. Certain legal matters will be passed upon for the Underwriters by their counsel, Bose McKinney & Evans, Indianapolis, Indiana.

UNDERWRITING

Under the Bond Purchase Agreement entered into among Legg Mason Wood Walker Incorporated and Raymond James & Associates, Inc.(the "Underwriters"), and the Bond Bank, the Bonds are being purchased by the Underwriters for reoffering at an aggregate purchase price of $57,204,238.16 which reflects an Underwriters' discount of $383,725.00, reoffering premium of $1,965,385.45 and accrued interest of $162,577.71 from the par amount of Bonds set forth or reflected on the cover page of this Official Statement. The Bond Purchase Agreement provides that the Underwriters will purchase all of the Bonds if any are purchased. The obligations of the Bond Bank to deliver the Bonds and of the Underwriters to accept delivery of the Bonds are subject to various conditions contained in the Bond Purchase Agreement.

The Underwriters have agreed to make a bona fide public offering of all of the Bonds at prices not in excess of the initial public offering prices set forth or reflected on the cover page of this Official Statement. The Underwriters may offer and sell the Bonds to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than the public offering price.

CONTINUING DISCLOSURE

Pursuant to disclosure requirements set forth in Rule 15c2-12 (the "Rule") promulgated by the Securities and Exchange Commission (the "SEC"), the State will agree to provide or cause to be provided through the Trustee or the Bond Bank, as dissemination agent (the "Agent"), certain annual financial information and operating data described below.

Pursuant to the terms of the State's Continuing Disclosure Undertaking Agreement (the "Undertaking"), the State will agree to provide the following information as long as the State is committed by contract or other arrangement to facilitate payment of the obligations on the Bonds (or until such time as the Bonds may be defeased, all as more fully set forth in the Undertaking):

1. Audited Financial Statements. To each nationally recognized municipal securities information repository ("NRMSIR") then in existence and to the Indiana state information depository then in existence, if any (the "State Depository"), when and if available, the audited financial statements of the State for each fiscal year of the State, beginning with the fiscal year ending June 30, 2001, together with the independent auditor's report and all notes thereto; if audited financial statements are not available within 210 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2001, the Annual Information (as defined below) shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Information when they become available; and

2. Financial Information in this Official Statement. To each NRMSIR then in existence and to the State Depository within 210 days following the close of the fiscal year of the State, beginning with the fiscal year ending June 30, 2001, annual financial information, other than the audited or unaudited financial statements described above, including operating data of the type provided in Appendix B -- "FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA."

(The information described in items 1 and 2 above is referred to as the "Annual Information.")

Pursuant to the terms of the Undertaking, the State will also agree to provide to each NRMSIR or to the Municipal Securities Rulemaking Board, and to the State Depository, the following event notices ("Event Notice"), if material, and in a timely manner:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;
- adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- modifications to the rights of Bondholders;
- Bond calls (other than scheduled mandatory sinking fund redemptions for which notice is given in accordance with the Indenture and as described in the Final Official Statement);
- defeasances;
- release, substitution or sale of property securing repayment of the Bonds; and
- rating changes.

The State may from time to time choose to disseminate other information including other annual information or notice of the occurrence of certain other events, in addition to those listed above. If the State chooses to provide any such additional information, the State shall have no obligation to update such information or include it in any future Annual Information or Event Notice.

Failure to Disclose. In a timely manner, the Trustee shall notify each NRMSIR or the Municipal Securities Rulemaking Board, and the State Depository of any failure on the part of the State to provide the Annual Information. If any information relating to the State can no longer be provided because the operations to which they related have been materially changed or discontinued, a statement to that effect, provided by the State to each NRMSIR then in existence and to the State Depository along with the Annual Information required as specified above and containing such information as is still available, will satisfy such party's undertaking to provide the Annual Information. To the extent available, such party will cause to be filed along with the Annual Information operating data similar to that which can no longer be provided.

Accounting Principles. The accounting principles pursuant to which the financial statements of the State will be prepared will be generally accepted accounting principles, as in effect from time to time or those mandated by State law from time to time.

Remedy. The Undertaking is solely for the benefit of the holders and Beneficial Owners of the Bonds and creates no new contractual or other rights for the SEC, any underwriter (other than the Underwriter), brokers, dealers, municipal securities dealers, potential customers, other obligated persons or any other third party. The sole remedy against the State for any failure to carry out any provision of the Undertaking shall be for specific performance of the State's disclosure obligations under the Undertaking. Failure on the part of the State to honor its covenants thereunder shall not constitute a breach or default of the Bonds, the Indenture or any other agreement to which the State, or any instrumentality or officer thereof, is a party.

The remedy set forth in the preceding paragraph may be exercised by the Trustee or any holder or Beneficial Owner of the Bonds who may seek specific performance by court order to cause the State to comply with its obligations under the Undertaking.

Modification of Undertaking. The Bond Bank, State and the Trustee may, from time to time, amend or modify any provision of the Undertaking without the consent of the holders or the Beneficial Owners of the Bonds if: (a)(i) such amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law or change in the identity, nature or status of the Bond Bank or the State, or type of business conducted, (ii) the Undertaking, as so amended or modified, would have complied with the requirements of the Rule on the date of the Undertaking, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances, and (iii) such amendment or modification does not materially impair the interest of the holders or Beneficial Owners of the Bonds as determined either by (A) any person selected by the State that is unaffiliated by the State (including the Counterparty as Trustee under the Indenture) or (B) is approved by the holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of the holders, or (C) such amendment or waiver (including an amendment which rescinds the Undertaking) is permitted by the Rule.

The Annual Information for the fiscal year during which any such amendment or waiver occurs that contains the amended or waived Annual Information will explain, in narrative form, the reasons for such amendment or waiver and the impact of the change in the type of information being provided in the Annual Information.

Copies of the Undertaking are available from the Bond Bank upon request.

RATINGS

Standard & Poor's has given the Bonds a rating of "Aaa." A further explanation of such rating may be obtained from such agency at 25 Broadway, New York, New York, 10004. Such rating reflects only the view of Standard & Poor's and is not a recommendation to buy, sell or hold the Bonds. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely if, in the judgment of Standard & Poor's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect upon the market price or marketability of the Bonds.

Moody's Investors Service has given the Bonds a rating of "AAA." A further explanation of such rating may be obtained from such agency at 99 Church Street, New York, New York, 10007. Such rating reflects only the view of Moody's Investors Service and is not a recommendation to buy, sell or hold the Bonds. There is no assurance that the rating will continue for any given period of time or that the rating will not be revised downward or withdrawn entirely if, in the judgment of Moody's Investors Service, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect upon the market price or marketability of the Bonds.

MISCELLANEOUS

The Bond Bank's offices are located at 10 West Market Street, Suite 2980, Indianapolis, Indiana 46204, Telephone (317) 233-0888.

Municipal Consultants, Indianapolis, Indiana, is employed as financial advisor to the Bond Bank and has acted as such with respect to the Bonds.

All quotations from, and summaries and explanations of the Act, the Indenture, the Acquisition Agreement, the Agreements, the Undertaking and the Bonds contained in this Official Statement do not purport to be complete and reference is made to the Act, the Indenture, the Acquisition Agreement, the Agreements, the Undertaking and the Bonds for full and complete statements of their provisions. The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements. Copies in reasonable quantity of the Act, the Indenture, the Undertaking and the Acquisition Agreement and supplemental materials furnished to the Bond Bank may be obtained upon request directed to the Bond Bank.

Neither any advertisement of the Bonds nor this Official Statement is to be construed as constituting an agreement with the purchasers of the Bonds. So far as any statements are made in this Official Statement involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

This Official Statement has been duly approved, signed and delivered by the Bond Bank.

INDIANA BOND BANK

By______________________________
Tim Berry, Chairman, Ex Officio

APPENDIX A

LIST OF AGREEMENTS TO BE ACQUIRED

INDIANA BOND BANK
Common School Fund Advancement Purchase Funding Bonds of 2001
Verification and Demand Study

Advancements Purchased

Name of School Corporation	Loan #	Interest Rate	Principal Balance	Final Maturity*
New Harmony & Harmony Township School Corp.	240	9.00%	$ 62,514.37	7/1/08
Scott County District 2	246	6.00%	34,463.05	7/1/08
Rising Sun-Ohio Co. Community School Corp.	253	6.00%	15,458.65	7/1/08
Goshen Community Schools	296	6.00%	37,500.00	1/1/12
Franklin Township Community School Corp.	297	6.00%	37,500.00	1/1/12
Batesville Community Schools	298	6.00%	24,250.00	7/1/12
Town of Highland School	299	5.00%	600,000.00	1/1/12
Shenandoah School Corp.	300	5.00%	600,000.00	1/1/12
Randolph Southern School Corp.	301	6.00%	24,976.24	1/1/12
Monroe-Gregg School District	303	6.00%	37,500.00	7/1/12
Baugo Community Schools	304	5.00%	490,556.17	7/1/12
Southeast Fountain School Corp.	305	5.00%	600,000.00	1/1/12
Penn-Harris-Madison School Corp.	308	5.00%	599,743.90	1/1/12
Eastern School District of Greene County	309	5.00%	562,500.00	7/1/11
Hamilton Heights Community Schools	310	5.00%	57,694.02	7/1/14
Mt. Pleasant Township Community School Corp.	311	6.00%	37,499.98	1/1/13
Crawfordsville Community School Corp.	312	6.00%	31,311.30	1/1/13
Nineveh-Hensley-Jackson United School Corp.	313	5.00%	37,500.00	1/1/14
Cloverdale Community School Corp.	314	5.00%	600,000.00	1/1/12
South Putnam Community School Corp.	315	5.00%	75,000.00	1/1/15
South Madison Community School Corp.	316	5.00%	600,000.00	1/1/12
Brownsburg Community School Corp.	318	5.00%	37,500.00	7/1/13
North Harrison Community School Corp.	319	5.00%	37,500.00	7/1/13
Bloomfield School District	320	5.00%	37,101.12	7/1/13
West Noble School Corp.	321	5.00%	336,976.01	7/1/12
East Washington School Corp.	322	5.00%	37,500.00	1/1/14
Spencer-Owen School Corp.	323	5.00%	34,209.34	7/1/13
North Vermillion Community School Corp.	324	5.00%	66,150.00	1/1/15
Mitchell Community School Corp.	325	5.00%	37,500.00	7/1/13
Plainfield School Corp.	326	5.00%	37,500.00	7/1/13
Covington Community School Corp.	327	5.00%	33,765.52	7/1/14
Westfield-Washington Schools	328	5.00%	637,500.00	7/1/12
Mill Creek Community School Corp.	329	5.00%	28,916.98	1/1/14
Rossville Community School Corp.	330	5.00%	37,500.00	7/1/14
Southwest Parke Community School Corp.	331	5.00%	14,202.50	7/1/13
Flatrock-Hawcreek School Corp.	332	5.00%	37,500.00	7/1/14
Barr-Reeve Community Schools	333	5.00%	42,970.02	7/1/14
Griffith Public Schools	334	5.00%	37,500.00	7/1/14
North Spencer Community School Corp.	335	5.00%	74,655.96	1/1/15
Decatur County Community Schools	336	5.00%	60,102.42	7/1/14
Northwestern Community School Corp.	337	5.00%	75,000.00	1/1/15
Mt. Vernon Community School Corp.	338	5.00%	37,500.00	7/1/14
North Putnam Community School Corp.	339	6.00%	17,100.00	7/1/14
Hamilton Heights Community Schools	340	5.00%	116,906.45	1/1/15
Southern Wells Community Schools	342	4.00%	300,000.00	1/1/07
Daleville Community Schools	343	5.00%	23,402.43	1/1/14
Wabash City Schools	344	4.00%	700,000.00	1/1/07
North Newton School Corp.	345	5.00%	37,500.00	1/1/14
Centerville-Abington School Corp.	346	4.00%	757,972.19	1/1/07
Crown Point Community School Corp.	347	4.00%	418,029.25	1/1/07
Blue River Valley Schools	348	4.00%	3,050.00	1/1/04

INDIANA BOND BANK
Common School Fund Advancement Purchase Funding Bonds of 2001
Verification and Demand Study

Advancements Purchased

Name of School Corporation	Loan #	Interest Rate	Principal Balance	Final Maturity*
Middlebury Community Schools	349	5.00%	37,500.00	7/1/14
West Noble School Corp.	350	4.00%	700,000.00	1/1/07
Center Grove Community School Corp.	351	5.00%	810,000.00	1/1/15
M.S.D. of Bluffton Harrison	352	4.00%	586,824.50	1/1/07
Marion-Adams Schools	353	4.00%	1,088,267.95	1/1/07
Eastern School District	354	4.00%	434,000.00	1/1/07
Greater Clark County School Corp.	355	4.00%	175,000.00	1/1/07
Western Wayne School Corp.	356	4.00%	838,447.00	1/1/07
Tippecanoe Valley School Corp.	357	4.00%	330,000.00	1/1/07
Porter Township School Corp	358	4.00%	223,427.25	1/1/07
Cloverdale Community Schools	400	4.25%	509,761.65	1/1/09
Crown Point Community School Corp.	401	4.25%	500,000.00	1/1/09
North Miami Community School Corp.	402	4.25%	145,833.37	1/1/07
Cowan Community School Corp	403	4.25%	562,500.00	1/1/09
M.S.D of Bluffton-Harrison	404	4.25%	654,343.62	1/1/09
Hanover Community School Corp.	406	4.25%	664,495.10	1/1/09
Smith-Green Community Schools	407	4.00%	334,286.26	1/1/07
M.S.D. of Shakamak	408	4.00%	485,646.35	1/1/07
Crawford County Community School Corp.	409	4.25%	101,275.95	1/1/09
Western Wayne School Corp.	410	4.25%	249,515.00	1/1/09
Crown Point Community School Corp.	411	4.25%	500,000.00	1/1/09
Sunman-Dearborn Community Schools	412	4.00%	641,069.91	1/1/07
Frankfurt Community Schools	413	4.25%	900,000.00	1/1/09
Penn-Harris-Madison School Corp.	414	4.00%	55,607.65	1/1/07
Manchester Community Schools	415	4.25%	880,500.00	1/1/09
East Gibson School Corp.	416	4.25%	680,295.90	1/1/09
South Madison Community School Corp.	417	4.00%	1,679,444.73	1/1/07
Griffith Public Schools	418	5.25%	508,344.50	1/1/19
Switzerland County School Corp.	419	5.25%	1,524,109.01	1/1/19
M.S.D. of Decatur Township	420	4.00%	244,116.04	1/1/07
City of Hammond School	421	4.75%	2,638,919.50	1/1/14
Hanover Community School Corp.	422	4.75%	135,000.00	1/1/14
M.S.D. of Boone Township	423	4.75%	19,976.21	7/1/02
M.S.D. of Decatur Township	425	4.00%	700,000.00	1/1/07
Clay Community Schools	426	4.25%	835,200.00	1/1/09
Lake Station Community Schools	427	4.00%	56,913.82	1/1/07
East Washington School Corp.	428	4.75%	114,000.00	1/1/14
South Dearborn Community School Corp.	429	4.00%	3,159,470.93	1/1/07
Flatrock-Hawcreek School Corp.	430	4.75%	1,434,890.00	7/1/07
New Castle Community School Corp.	431	4.75%	1,293,780.19	1/1/14
Greater Clark County School Corp.	432	4.75%	90,000.00	1/1/14
Huntington County School Corp.	433	4.75%	234,757.56	1/1/14
Lake Station Community Schools	434	4.00%	455,000.00	1/1/07
Perry Central Community School Corp.	435	4.50%	2,802,500.00	1/1/11
Crawford County Community School Corp.	436	4.50%	126,973.80	1/1/11
Lake Ridge Schools	437	4.50%	517,732.14	1/1/11
Rising Sun-Ohio Co. Community School Corp.	438	4.50%	1,403,977.83	1/1/11
Crawford County Community School Corp.	439	4.50%	252,000.00	1/1/11
Cloverdale Community School Corp.	440	4.50%	929,043.00	1/1/11
Scott County District 1	441	4.50%	1,560,117.96	1/1/11
Lake Ridge Schools	442	4.50%	1,506,650.22	1/1/11
Lake Ridge Schools	443	4.50%	528,638.14	1/1/11

INDIANA BOND BANK
Common School Fund Advancement Purchase Funding Bonds of 2001
Verification and Demand Study

Advancements Purchased

Name of School Corporation	Loan #	Interest Rate	Principal Balance	Final Maturity*
Scott County District 1	444	4.50%	2,303,308.82	1/1/11
Spencer-Owen School Corp.	445	4.50%	3,593,335.38	1/1/11
West Washington School Corp.	446	4.00%	464,252.61	1/1/07
Lake Station Community Schools	447	4.00%	223,666.63	1/1/07
Paoli Community School Corp.	448	4.00%	114,195.40	1/1/07
Porter Township School Corp.	450	4.00%	229,472.47	1/1/07
Loogootee Community School Corp.	451	4.00%	453,733.56	1/1/07
North West Hendricks School Corp.	455	4.00%	286,000.00	1/1/07
Community Schools of Frankfort	456	4.00%	1,200,036.50	7/1/06
North Miami Community Schools	458	4.00%	308,000.00	1/1/07
Paoli Community School Corp.	461	4.00%	168,750.00	1/1/07
Lake Station Community Schools	467	4.00%	125,000.00	1/1/07

*Equals Treasury Payment Date

APPENDIX B

FINANCIAL AND ECONOMIC STATEMENT FOR THE STATE OF INDIANA

APPENDIX B

**FINANCIAL AND ECONOMIC
STATEMENT FOR THE STATE OF INDIANA**

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INTRODUCTION

This Financial and Economic Statement (the "Statement") for the State of Indiana (the "State") includes a discussion of the State's economic and fiscal condition, the results of operations for the past five years and revenue and expenditure projections through the end of the biennium ending June 30, 2003. The information has been compiled on behalf of the State by the Indiana State Budget Agency and includes information and data taken from the Agency's unaudited year-end budget reports. It also includes information obtained from other sources the State believes to be reliable. Information included in the section titled "Litigation" has been furnished by the office of the State Attorney General.

The State expects to update the entire Statement at least annually after the close of each Fiscal Year (as defined herein). The status of this Statement or any updates or supplements may be obtained by contacting the Indiana State Budget Agency, Room 212, State House, Indianapolis, IN 46204, Tel: (317) 232-5610. This Statement should be read in its entirety together with any updates or supplements.

The General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000 are Exhibit B-1 to this Appendix B.

STRUCTURE OF STATE GOVERNMENT

Division of Powers

The State constitution divides the powers of the State's government into three separate departments: the executive (including the administrative), the legislative and the judicial. Under the State constitution, no person in any one department may exercise any function of another department unless expressly authorized to do so by the constitution.

Executive Department

The executive department of the State is comprised of the Governor, Lieutenant Governor, Secretary of State, State Auditor, State Treasurer, Attorney General, Superintendent of Public Instruction and Clerk of the Supreme Court and Court of Appeals. All are elected for four-year terms, with the terms of the Lieutenant Governor, Attorney General and Superintendent of Public Instruction coinciding with that of the Governor.

The State constitution requires the Governor to "take care that the laws are faithfully executed." The Governor may recommend legislation to the General Assembly of the State (the "General Assembly") may call special sessions of the General Assembly and may veto any bill passed by the General Assembly (although such veto may be overridden if the bill is re-passed by a majority of *all* the members elected to each house of the General Assembly). There are approximately 400 boards and agencies which are responsible to the Governor. If the Governor vacates the office or is unable to discharge the Governor's duties, the Lieutenant Governor discharges the powers and duties as Acting Governor until the next general election.

The Lieutenant Governor serves as the President of the State Senate and casts the deciding vote whenever the Senate is equally divided. The Lieutenant Governor also serves as director of the State Department of Commerce, the Commissioner of Agriculture, the chairman of the Indiana Housing Finance Authority, the secretary manager of the Indiana Development Finance Authority and a member of the Indiana State Office Building Commission.

The Secretary of State attests official State documents issued by the Governor, maintains records of elections and administers State laws regulating the sale and trading of securities and corporate and Uniform Commercial Code filings.

The State Treasurer is responsible for holding and investing all State revenues and disburses money upon warrants issued by the State Auditor. The State Treasurer is a member of the State Board of Finance, Indiana Transportation Finance Authority, Indiana Housing Finance Authority, Indiana Development Finance Authority and State Office Building Commission. The State Treasurer is Secretary-Investment Manager of the State Board for Depositories and chairs the Indiana Bond Bank and Indiana Education Savings Authority.

The State Auditor maintains the State's centralized financial accounting system for all State agencies. Responsibilities include accounting for receipts and disbursements of the State, as well as issuing payroll for most State employees. The State Auditor is required by statute to prepare and publish annual statements of State funds, outlining receipts and disbursements of each State department and agency. The State Auditor is a member of the State Board of Finance, State Office Building Commission, State Board for Depositories and Data Process Oversight Commission.

The Attorney General is the chief legal officer of the State and is required to represent the State in every lawsuit in which the State is a party. The Attorney General, upon request, gives legal opinions regarding particular statutes to the Governor, members of the General Assembly and officers of the State.

The Superintendent of Public Instruction chairs the State Board of Education, which establishes policies and directives for implementation by the Indiana Department of Education. The Superintendent of Public Instruction oversees the Department of Education.

The Clerk of the Supreme Court and Court of Appeals performs the clerical and administrative duties required by the two highest courts of the State.

Legislative Department

The legislative authority of the State is vested in the General Assembly, which is comprised of the House of Representatives and the Senate. The House of Representatives consists of 100 members who are elected for two-year terms beginning in odd-numbered years. The Senate consists of 50 members who are elected for four-year terms, with one-half of the Senate elected biennially. The Speaker presides over the House of Representatives. The Speaker is selected by the members of the House of Representatives from among their ranks. The Lieutenant Governor is President of the Senate.

By law, the term of each General Assembly extends for two years, beginning in November of each even-numbered calendar year. The first regular session of every General Assembly occurs in the following odd-numbered year, convening not later than the second Monday in January and adjourning not later than April 29. The second regular session occurs in the following year, convening not later than the second Monday in January and adjourning not later than March 14.

Pursuant to the State constitution, special sessions of the General Assembly may be convened by the Governor at any time if, in the Governor's opinion, "the public welfare shall require." By statute, a special session of the General Assembly may not exceed 30 session days during a 40-calendar-day period. The Governor cannot limit the subject of any special session or its scope.

Judicial Department

The State constitution provides that the "judicial power of the State shall be vested in one Supreme Court, one Court of Appeals, Circuit Courts, and such other courts as the General Assembly may establish."

The Judicial Nominating Commission (comprised of the Chief Justice or his appointee, three attorneys elected by the attorneys of Indiana and three non-attorney citizens appointed by the Governor) evaluates the qualifications of potential candidates for vacant seats on the Supreme Court and Court of Appeals. When a vacancy occurs in either court, the Judicial Nominating Commission submits the names of three nominees and the Governor selects one of the three. If the Governor fails to choose among the nominees within 60 days, the Chief Justice is required to make the appointment.

The initial term of each newly appointed justice and judge is two years, after which the justice or judge is subject to a "yes" or "no" referendum at the time of the next general election. For justices of the Supreme Court, the entire State electorate votes on the question of approval or rejection. For Court of Appeals judges, the referendum is by district. Those justices and judges receiving an affirmative vote from the voting public serve a ten-year term, after which they are again subject to referendum. Justices and judges are prohibited from taking part in political campaigns and must retire by age 75.

FISCAL POLICIES

Fiscal Years

The State's Fiscal Year is the 12-month period beginning on July 1 of each calendar year and ending on June 30 of the succeeding calendar year (a "Fiscal Year").

Accounting System

The State maintains a central accounting system which processes all payments for State agencies and institutions with the exception of State colleges and universities. The State Auditor is responsible for the pre-audit of all payments, the issuance of all State warrants and the maintenance of the State-wide accounting system.

Budgetary control is fully integrated into the accounting system. Legislative appropriations are entered into the system as an overall spending limit by account for each agency within each fund, but appropriations are not available for expenditure until allotted by the Budget Agency. Allotments authorize an agency to spend a portion of its appropriation. The Budget Agency makes quarterly allotments.

The accounting system is maintained using the cash basis of accounting. At year-end, accruals are recognized as necessary to convert from the cash basis to the modified accrual basis of accounting in accordance with generally accepted accounting principles for financial reporting purposes. The general purpose financial statements of the State for the Fiscal Year ended June 30, 2000, together with the independent auditors' report thereon, are included in the General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000, attached hereto as Exhibit B-1. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Fund Structure

Funds are used to record the activities of State government. There are three major fund types: Governmental, Proprietary and Fiduciary.

Governmental Funds

Governmental Funds are used to account for the State's general governmental activities and use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (that is, when they are "measurable and available"). Expenditures are recorded when the related fund liability is incurred, except that (i) unmatured interest on general long-term debt is recognized when due and (ii) certain compensated absences and related liabilities and claims and judgments are recognized when the obligations are expected to be liquidated. Governmental Funds include the following fund types:

The General Fund is maintained to account for resources obtained and used for those services traditionally provided by State government which are not required to be accounted for in another fund.

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. There are several Special Revenue Funds including, for instance, the Motor Vehicle Highway Fund, which receives revenues from gasoline taxes and motor vehicle registrations and operator licensing fees and distributes those revenues among the State and its counties, cities and towns to be used for the construction, reconstruction, improvement, maintenance and policing of highways and secondary roads.

The Property Tax Replacement Fund ("PTRF" or "PTR Fund") is also reported by the State Auditor as a Special Revenue Fund. The PTRF is funded from 40% of State sales and use tax revenues and a portion of corporate adjusted gross income tax receipts. The Property Tax Replacement Fund is used to provide (i) property tax relief and (ii) local school aid. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund, so as to provide the most complete and accurate description possible of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For that reason, the General Fund and PTRF are sometimes discussed in this Appendix B as a single, combined fund. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Debt Service Funds are used to account for the accumulation of resources and payment of bond principal and interest from special revenue component units which are both corporate and politic and have the legal authority to issue bonds to finance certain improvements within the State.

Capital Projects Funds are used to account for financial resources to be used by the State for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). Capital Projects Funds include the Post War Construction Fund, Build Indiana Fund, Soldiers and Sailors Children's Home Fund, Veterans Home Fund, State Police Building Commission Fund, Law Enforcement Academy Building Fund, Interstate Bridge Fund and Major Construction-Indiana Army National Guard Fund.

Proprietary Funds

Proprietary Funds use the accrual basis of accounting. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred. Proprietary Funds include the following fund types:

Enterprise Funds are used to account for operations established to provide services to the general public in a manner similar to private business enterprises. Cost of providing the goods or services are financed or recovered primarily through user charges. Enterprise Funds include the Inns and Concessions Fund, Toll Bridges Fund, Toll Roads Fund, State Lottery Commission Fund, Malpractice Insurance Authority Fund and Political Subdivision Insurance Fund.

Internal Service Funds are used to account for the operations of State agencies which render goods or services to other agencies or governmental units on a cost-reimbursement basis. Internal Service Funds include the Institutional Industries Fund, Administration Services Rotary Fund, State Office Building Commission Fund, Recreational Development Commission Fund and Self-Insurance Funds.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units and other funds, and they are broken down into four broad categories:

Expendable Trust Funds. The State maintains various Expendable Trust Funds to account for resources the State holds as a trustee. The principal and earnings on this fund type may be used for purposes designated by trust agreement. Expendable Trust Funds include the Unemployment Funds and Health Insuring Organization Funds.

Non-Expendable Trust Funds. The State maintains a limited number of Non-Expendable Trust Funds to account for resources the State holds as a trustee. The principal must be preserved and only the earnings may be used for purposes designated by trust agreement. The most significant Non-Expendable Trust Fund is the Common School Fund. The Common School Fund was established by the State constitution and is comprised of fines, forfeitures and escheated estates. Interest on the Common School Fund may only be used to aid local schools.

Pension Trust Funds. The State maintains pension funds for State and local officers and employees and accounts for each type of pension in a separate fund. Such funds are accounted for in the same way as Proprietary Funds. See "STATE RETIREMENT SYSTEMS."

Agency Funds account for resources which are custodial in nature. Agency Funds generally include amounts held by the State on behalf of third parties. Agency Funds include the Deferred Compensation Fund, Institutional Funds, Department of Insurance Fund and State Police Employee Insurance Fund.

Account Groups

In addition to the fund types described above, the General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes, including all fixed assets except those accounted for in Proprietary and Pension Trust Funds. Public domain fixed assets, including highways, curbs, lighting systems, highway land and rights-of-way, are not included.

The General Long-Term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

Budget Process

The State Budget Agency is responsible for preparing the State budget. After the State budget is enacted, the Budget Agency has extensive statutory authority to administer it. The chief executive officer of the Budget Agency is the State Budget Director, who is appointed by the Governor. The Governor also appoints two Deputy Budget Directors; by law, the deputies must be of different political parties.

Budget Committee. The State Budget Committee consists of the State Budget Director and four senior State legislators. The Committee oversees the preparation of the budget and its administration after enactment. The legislative members of the Committee consist of two members of the Senate, appointed by the President *pro tempore*, and two members of the House of Representatives, appointed by the Speaker. One of the two appointees from each house must be nominated by the minority floor leader. Four alternate members of the Budget Committee must be legislators selected in the same manner as regular members. An alternate member participates and has the same privileges as a regular member, except that an alternate member votes only if the regular member from the alternate member's respective house and political party is not present. The legislators serve as liaisons between the executive and legislative departments and provide fiscal information to their respective caucuses.

Budget Development. The State's budget process is set out in statute. The State operates under a biennial budget. On or before the first day of September in each even-numbered year, all State agencies, including State-supported higher education institutions and public employee and teacher pension fund trustees, submit budget requests to the Budget Agency. The Budget Agency then conducts an internal review of each request.

In September of each even-numbered year, the Budget Committee begins hearings on each budget request. After presentations by the agencies and the Budget Agency, the Budget Committee makes budget recommendations to the Governor. The Budget Committee's recommendations are tentative, pending review of revenue projections for the next biennium, which typically are available late in the second quarter of the Fiscal Year.

Revenue Projections. Revenue projections are prepared by the Indiana Economic Forecast Committee and the Technical Forecast Committee. The Economic Forecast Committee is responsible for forecasting independent variables which may be employed by the Technical Forecast Committee to derive the State's revenue projections. The Economic Forecast Committee is currently comprised of seven economists within the State and a special adviser associated with the Federal Reserve Bank of Chicago, all of whom serve at the request of the Governor and without pay. Members of the Economic Forecast Committee have detailed knowledge of the State and national economies, the banking community and the Federal Reserve System and have access to a national econometric model.

The Technical Forecast Committee is responsible for developing econometric models used to derive the State's revenue projections and for monitoring changes in State and federal laws that may have an impact on State revenues. Each regular member of the Budget Committee appoints a member of the Technical Forecast Committee. Members of the Technical Forecast Committee are individuals with expertise in public finance from within State and local government, business interest groups and State-supported higher education institutions.

No formal contact occurs between the Economic Forecast Committee and the Technical Forecast Committee until the chair of each group reports to the Budget Committee. However, the Economic Forecast Committee does provide the economic assumptions used by the Technical Forecast Committee in preparing the State's revenue projections. The report presented by the Technical Forecast Committee is a consensus forecast in which Democratic and Republican legislators and the executive and legislative departments are involved.

Budget Report. The budget report and budget bill are prepared by the Budget Committee with the Budget Agency's assistance. The budget report and bills are based upon the recommendations and estimates prepared by the Budget Agency and the information obtained through the hearings and other inquiries. In the event the Budget Agency and a majority of the members of the Budget Committee differ upon any item, matter or amount to be included in the budget report and bills, the recommendation of the Budget Agency is included in the budget bills. The particular item, matter or amount, and the extent of and reasons for the differences between the Budget Agency and the Budget Committee, must be stated fully in the budget report.

Before the second Monday of January in the year immediately after their preparation, the Budget Committee submits the budget report and bill to the Governor. The Governor then delivers such budget bills to the Budget Committee members appointed by the Speaker of the House of Representatives for introduction in the House. Although there is no law that requires a budget bill to originate in the House, by tradition, the House passes budget bills first and sends them to the Senate for consideration.

The budget report includes at least these five parts: (a) a statement of policy, (b) a general summary, (c) detailed data on actual receipts and expenditures for the previous budget period, (d) a description of the capital improvement program for the State and (e) the budget bill.

Appropriations

By statute, the Budget Committee is required to meet at least once during the two-month period after the adjournment of each regular session of the General Assembly and, beginning in July, at least once each month and upon call of the chair.

Appropriations. Within 45 days following the adjournment of each regular session of the General Assembly or within 60 days following a special session of the General Assembly, the Budget Agency is required to prepare a list of all appropriations made for the budget period beginning on July 1 following such session, or for such other period as may be provided in the appropriation. The State Budget Director is required to prepare a written review and analysis of the fiscal status and affairs of the State as affected by the appropriations. The report is forwarded to the Governor, the State Auditor and each member of the General Assembly.

On or before the first day of June of each calendar year, the Budget Agency is required to prepare a list of all appropriations made for expenditure or encumbrance during the next Fiscal Year. The State Auditor then establishes the necessary accounts based upon the list.

Transfers. The Budget Agency is responsible for administering the State budget after it is enacted. The Budget Agency may transfer, assign or reassign all or any part of any appropriation made to any agency for one specific use or purpose to another use or purpose, except any appropriation made to the Indiana State Teachers' Retirement Fund. The Budget Agency may take such action only if the transfer, assignment or reassignment is to meet a use or purpose which an agency is required or authorized by law to perform. The agency whose appropriation is involved must approve the transfer, assignment or reassignment.

Contingency Appropriations. The General Assembly may also make "contingency appropriations" to the Budget Agency. Contingency appropriations are general and unrelated to any specific State agency. In the absence of other directions imposed by the General Assembly, contingency appropriations must be for the general use of any agency of the State and must be for its contingency purposes or needs, as the Budget Agency in each situation determines. The Budget Agency fixes the amount of each transfer and orders the transfer from such appropriations to the agency. By law, the Budget Agency may make and order allocations and transfers to, and authorize expenditures by, the various State agencies to achieve the purposes of such agencies or to meet the following:

1. necessary expenditures for the preservation of public health and for the protection of persons and property that were not foreseen when appropriations were last made;

2. repair of damage to, or replacement of, any building or equipment owned by the State which has been so damaged so as to materially affect the public safety or utility thereof, or which has so deteriorated as to become unusable if such deterioration was not foreseen when appropriations were last made;

3. emergencies resulting from an increase in costs or any other factor or event that was not foreseen when appropriations were last made, or

4. without limiting the foregoing, supplementation of an exhausted fund or account of any State agency, whatsoever the cause of such exhaustion, if such is found necessary to accomplish the orderly administration of the agency, or the accomplishment of an existing specific State project. (No such funds may authorize a purpose which was included in the budget bills to the previous General Assembly but was wholly omitted by the General Assembly.)

These provisions may not change, impair or destroy any fund previously created nor affect the administration of any contingency appropriations previously or subsequently made for specific purposes.

State Board of Finance

The State Board of Finance (the "Board") consists of the Governor, the State Treasurer and the State Auditor. The Board elects from its membership a president, who by tradition is the Governor. By law, the State Auditor is the secretary of the Board. The Board is responsible for supervising the fiscal affairs of the State and has advisory supervision of the safekeeping of all funds coming into the State treasury and all other funds belonging to the State coming into the possession of any State agency or officer. The Board may transfer money between State funds, except trust funds, and the Board may transfer money between appropriations for any State board, department, commission, office or benevolent or penal institution.

The Board has statutory authority to negotiate loans on behalf of the State for the purpose of meeting "casual deficits" in State revenues. A loan may not be for a period longer than four years after the end of the Fiscal Year in which it is made. If sufficient revenues are not being received by the General Fund to repay the loan when due, the Board may levy a tax on all taxable property in the State sufficient to pay the amount of the indebtedness. The Board has never exercised its authority to levy a tax.

Rainy Day Fund

In 1982, the General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund, which is commonly called the "Rainy Day Fund." The Rainy Day Fund was established to permit the State to collect and maintain substantial general purpose tax revenues during periods of economic expansion for use during periods of economic recession. In effect, the Rainy Day Fund is a statutorily required State savings account.

Each year the State Budget Director determines calendar year Adjusted Personal Income ("API") for the State and its growth rate over the previous year. API is determined by dividing the calendar year State personal income (excluding transfer payments made in the State) by the implicit price deflator for the Fiscal Year ending in the aforementioned calendar year; the result is multiplied by 100. The annual growth rate in API for a particular calendar year is calculated by dividing the difference between API for such year and API for the immediately preceding calendar year by the amount of API for the immediately preceding calendar year. This change in API is the sole factor in determining whether General Fund revenues are transferred to the Rainy Day Fund or whether moneys in the Rainy Day Fund revert to the General Fund. In general, moneys are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2.0%; moneys are removed automatically from the Rainy Day Fund if API declines by more than 2.0%.

By law, "automatic" appropriations to and from the General Fund are determined as follows:

1. If the growth rate of API for the calendar year immediately preceding the current calendar year is greater than 2.0%, an amount is appropriated from the General Fund for the Fiscal Year beginning in the current calendar year which equals the total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the growth rate in API less two percentage points.

2. If API declines by more than 2.0% for the calendar year immediately preceding the current calendar year, the amount appropriated to the General Fund for the Fiscal Year beginning in the current

calendar year equals total General Fund revenues for the Fiscal Year ending in the current calendar year, multiplied by the decline in API less two percentage points.

During a Fiscal Year when a transfer is made to the Rainy Day Fund, if General Fund revenues are less than estimated (and the shortfall cannot be attributed to a statutory change in the tax rate, tax base, fee schedules or revenue sources from which the revenue estimates were made), an amount reverts to the General Fund from the Rainy Day Fund equal to the lesser of (a) the amount initially transferred to the Rainy Day Fund during the Fiscal Year and (b) the amount necessary to balance the General Fund budget for the Fiscal Year.

All earnings from the investment of the Rainy Day Fund balance remain in the Rainy Day Fund. Moneys in the Rainy Day Fund at the end of the Fiscal Year do not revert to the General Fund. If the balance in the Rainy Day Fund at the end of the Fiscal Year exceeds 7.0% of total General Fund revenues for the Fiscal Year, the excess is transferred from the Rainy Day Fund into the PTRF.

The 2001 General Assembly enacted a number of special provisions designed to help balance the budget for the 2002-2003 biennium. Two such provisions involve possible transfers from the Rainy Day Fund to the General Fund. For a detailed explanation of these transfers and their impact on the 2002-2003 biennial budget, see "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Rainy Day Fund" and Table 3 for further discussion of Rainy Day Fund balances and transfers.

Cash Management and Investments

The State Treasurer is responsible for the receipt, custody and deposit of all moneys paid into the State Treasury and keeps daily accounts of all funds received into the Treasury and all moneys paid out of it. The State Treasurer is responsible for investing the General Fund, PTRF, Rainy Day Fund and more than 60 other funds.

Interest bearing demand accounts are maintained in three Indianapolis banks to clear State warrants and to compensate for banking services rendered. Deposits are made directly by the State Treasurer or by State departments and agencies for credit to the State Treasury. Except for such demand accounts, all State funds are invested. Repurchase agreements are used for short-term cash management purposes and must be fully collateralized by certain obligations of the United States government or its agencies (determined on the basis of current market value). The majority of investments are obligations backed by the full faith and credit of the United States and certificates of deposit in Indiana financial institutions; however, the State Treasurer is also authorized to invest in obligations issued by agencies and instrumentalities of the United States. Rates on certificates of deposit are established by prevailing market conditions. Deposits are subject to coverage by the Indiana Public Deposit Insurance Fund in the event of depository closure; provided that the deposits were invested according to the investment requirements of Indiana Code 5-13.

Pursuant to State statute, the Treasurer may invest no more than 25% of the State's portfolio in securities with a final maturity exceeding five years. The remainder of the portfolio may not have final maturities exceeding two years.

Audits

The State Board of Accounts was created by the General Assembly in 1909 as a separate State agency, with the responsibility and authority to (a) audit all State and local units of government and (b) approve uniform systems of accounting for such governments.

The State Board of Accounts performs its financial and compliance audits in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. The State Board of Accounts issues its opinion on the fairness of financial statements and their conformity to generally accepted accounting principles for the State agencies and local units of governments it audits, including the State general purpose financial statements prepared by the State Auditor. See Exhibit B-1, including the Independent Auditor's Report therein.

STATE BUDGET PROFILE

Major General Fund and PTR Revenue Sources

Sales and use, corporate and individual income taxes are the three primary sources of State Operating Revenues (as hereinafter defined). In Fiscal Year 2001, combined revenues from those sources comprised about 90.3% of total State Operating Revenues. The following is a summary description of each of those revenue sources. See "FINANCIAL RESULTS OF OPERATIONS," including Table 5, "Combined General and PTR Fund."

Individual Adjusted Gross Income Tax. Adjusted gross income (federal adjusted gross income modified by adding back certain federal adjustments and subtracting certain federal exemptions and deductions) of residents and non-residents derived from Indiana sources is taxed at 3.4%.

All revenues derived from the collection of the adjusted gross income tax imposed on persons are credited to the General Fund. For Fiscal Year ended June 30, 2001, the $3,779.8 million in receipts from the adjusted gross income tax on individuals constituted approximately 41.0% of total State Operating Revenues. State individual income tax rates were last increased effective for Calendar Year 1988.

Sales and Use Taxes. A 5.0% sales tax is imposed on sales and rentals of tangible personal property and the sale of certain services, including the furnishing of public utility services and the rental or furnishing of public accommodations such as hotel and motel room rentals. In general, the complementary 5.0% use tax is imposed upon the storage, use or consumption of tangible personal property in the State. Some of the major exemptions from the sales and use taxes are sales of certain property to be used in manufacturing, agricultural production, public transportation or governmental functions, sales for resale, food sold in grocery stores and prescription drugs.

Of the receipts collected, 59.2% of the sales and use taxes are credited to the General Fund, 40.0% to the PTRF, 0.8% to the Public Mass Transportation Fund and 0.04% to the Industrial Rail Service Fund.

For Fiscal Year ended June 30, 2001, the $3,694.0 million in receipts from the sales and use taxes deposited in the General Fund and PTRF constituted approximately 40.0% of State Operating Revenues. The State sales and use tax rate was last increased in Fiscal Year 1983.

Corporate Income Taxes. There are three major corporate income taxes: the gross income tax, the adjusted gross income tax and the supplemental net income tax. Corporations are generally subject to both the gross income tax and the adjusted gross income taxes; however, as a result of a statutory credit provision, corporations annually pay an amount equal to the greater of the liabilities computed under the gross income tax and the adjusted gross income tax, plus the supplemental net income tax. There is also a financial institutions tax.

Subject to certain exemptions, the gross income tax is generally imposed on the gross receipts of corporations (and certain other taxpayers) which derive income from business within the State. While there are generally no deductions allowed for costs, losses or expenses, some taxpayers (including certain insurance companies, credit companies, wholesale grain and soybean dealers, wholesale grocers, livestock dealers and livestock slaughterers) are taxed on a gross "earnings" basis. In general, receipts from sales made in interstate commerce are exempt.

Gross receipts subject to the gross income tax are taxed at one of two rates, depending upon the transaction being taxed. The lower rate (0.3%) is imposed on receipts from retail sales, wholesale sales, display advertising, dry cleaning and other activities. The higher rate (1.2%) is imposed on all receipts which are not specifically defined to be taxed at the lower rate, including receipts from certain rentals, service income, utility services, earnings on intangibles and sales of realty. All gross income tax receipts are credited to the General Fund.

The adjusted gross income tax is generally applicable to corporations doing business in the State. The tax rate is 3.4% of adjusted gross income derived from sources within the State. Adjusted gross income is federal taxable income with certain additions and subtractions. Certain international banking facilities and insurance companies, S corporations and tax-exempt organizations (to the extent their income is exempt for federal tax purposes) are not subject to the adjusted gross income tax.

Part of the adjusted gross income tax collections is allocated to the General Fund on the basis of a statutory formula and the balance is credited to the PTRF. See "FISCAL POLICIES—Fund Structure—Governmental Funds."

The supplemental net income tax is imposed on all corporations subject to the adjusted gross income tax and on certain domestic insurance companies. The 4.5% tax rate is applied to the supplemental net tax base of the taxpayer. The supplemental net tax base is Indiana adjusted gross income less the greater of (a) the amounts paid under the adjusted gross income tax and (b) the amount paid under the gross income tax. There are no deductions or exemptions under the supplemental net income tax; however, the corporate gross income tax credits apply. All receipts from the supplemental net income tax are credited to the General Fund.

The financial institutions tax is imposed on each corporation that is transacting the "business of a financial institution" in Indiana. The financial institutions tax is a franchise tax on financial institutions, at a rate of 8.5% of adjusted or apportioned income, for the privilege of exercising their franchise or transacting business within the State. Certain exemptions from and credits against the financial institutions tax are available. A taxpayer subject to the financial institutions tax is exempt from the corporate gross income, adjusted gross income and supplemental net income taxes and State banking taxes. All receipts from the financial institutions tax are credited to the Financial Institutions Tax Fund. By statutory formula, a substantial amount of the moneys in such fund must be transferred to counties for distribution to the taxing units within the counties. The remainder is transferred to the General Fund.

For Fiscal Year ended June 30, 2001, corporate income and financial institutions tax receipts totaled $855.3 million and constituted approximately 9.3% of State Operating Revenues. State corporate income tax rates were last increased effective for Calendar Year 1987.

Other Operating Revenues. Other Operating Revenues are derived from Cigarette Taxes, Alcoholic Beverage Taxes, Inheritance Taxes, Insurance Taxes, Interest Earnings and miscellaneous revenue. Revenue from these sources together totaled about $897.2 million or about 9.7% of total Operating Revenues in Fiscal Year 2001.

Operating Revenues

While certain revenues of the State are required by law to be credited to particular funds other than the General Fund, the requirement is primarily for accounting purposes and may be changed. Substantially all State revenues are general revenues until applied. No lien or priority is created to secure the application of such revenues to any particular purpose or to any claim against the State. All revenues not allocated to a particular fund are credited to the General Fund. The general policy of the State is to close each Fiscal Year with a surplus in the General Fund and a zero balance in all other accounts, except for certain dedicated and trust funds and General Fund accounts reimbursed in arrears.

Although established by law as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a complete and accurate description of State receipts and discretionary expenditures, especially as those expenditures relate to local school aid. For this purpose, the combined receipts are referred to as State Operating Revenues ("Operating Revenues"). Operating Revenues are defined as the total of General Fund and PTRF revenues including certain revenues transferred from lottery and gaming accounts together with DSH revenues transferred to the General Fund. "DSH" revenues are extra Medicaid reimbursements provided to the State for hospitals which serve disproportionately large numbers of poor people. Total Operating Revenues are used in the determination of the State's unappropriated balance reflected on the Combined General and PTR Fund Unappropriated Reserve Statement. See "FINANCIAL RESULTS OF OPERATIONS—Fund Balances—Combined General and PTR Fund."

Revenue Forecast

On December 19, 2000, the Economic Forecast Committee presented to the State Budget Committee projections of Gross Domestic Product (GDP) and income for the third quarter of 2000 through the second quarter of 2003. The Forecast Committee noted that demand in the United States economy slowed from the torrid pace of the last three years, to a growth rate of about 3.3%. The Forecast Committee believed Indiana Non-farm Personal Income (IPI) had slowed from a high of 7.4% for the second quarter of Calendar Year 2000 to a level of about 5.2%

for the third and fourth quarters of Calendar Year 2000. The Forecast Committee expected real GDP growth to slip to about 1.8% by the second quarter of Calendar Year 2001. It is also projected that IPI would slow to about 3.5% during the first half of Calendar Year 2001. In December, the Forecast Committee did not expect the slowdown to lead to a recession. The Forecast Committee projected that by the Summer of 2001 rising natural gas prices would moderate, oil prices would remain below $30 per barrel, inflation would be stable and the Federal Reserve would have lowered interest rates. The Forecast Committee expected this would contribute to a rebound in the economy and real GDP growth would approach 4% early in 2002 before leveling off at about 3.6% which the Forecast Committee believes is the long term potential growth rate for the United States economy. IPI was also expected to rebound from an average of about 4.5% for Fiscal Year 2001 to about 5.5% for Fiscal Years 2002 and 2003.

Based on the December projections of the Economic Forecast Committee, the Technical Forecast Committee presented revised General-PTR Fund revenue projections for Fiscal Year 2001 and new General-PTR Fund revenue projections for Fiscal Years 2002 and 2003. The projected slowdown in growth of the economy caused the Technical Committee to lower revenue projections for Fiscal Year 2001 by about $251.5 million. Because the Forecast Committee believed the economy would rebound for Fiscal years 2002 and 2003, the Technical Committee projected revenue growth for those years at 4.9% and 5.4% respectively. However, because of the $251.5 million decrease to the Fiscal Year 2001 base, the Budget Agency estimated total General Fund revenues for Fiscal Years 2001 – 2003 would be about $856.1 million less than total revenues would have been expected to be for the same period without the current economic slowdown.

On April 11, 2001 the Economic Forecast Committee and the Technical Forecast Committee updated the December, 2000 forecasts. The Economic Forecast Committee presented a GDP growth pattern that was similar to the one presented in December – a real GDP slowdown in the first half of 2001 followed by a recovery beginning in the second half of the year. However, the Committee reduced the December real GDP forecast by 1.1% for fiscal year 2001, by .5% for fiscal Year 2002 and by .2% for Fiscal Year 2003. This resulted in a real GDP forecast that projects 1st quarter 2001 GDP at about .5% with a modest recovery beginning in the second half of 2001 and reaching real GDP growth of 3.5% by the middle of 2003. The Economic Forecast Committee also lowered projections for Indiana non-farm personal income by .4%, .4% and .1% for Fiscal Years 2001, 2002 and 2003 respectively.

In presenting this forecast, the Economic Forecast Committee expressed its belief that the worst of the current economic slowdown has already, or will soon, be past. In support of this position the Committee noted the following: several key economic indices, including consumer sentiment and certain components of the National Association of Purchasing Managers Index, appear to have stabilized, the Federal Reserve has generally acted more quickly to lower short term interest rates and increase monetary growth than was expected in December, consumer spending has held up reasonably well and vehicle output is increasing after many months of decline.

As a result of the new forecast by the Economic Forecast Committee, the Technical Forecast Committee revised the December, 2000 General Fund-Property Tax Replacement Fund revenue forecast. The Committee reduced the forecast for Fiscal Year 2001 by an additional $205.6 million. When this reduction is combined with the December reduction of $251.5 million, the Budget Agency now estimates that total General Fund- Property Tax Replacement Fund revenues for Fiscal Years 2001 – 2003 will be about $1,630.6 million less than total revenues would have been expected to be for the same period without the current economic slowdown. For a discussion of how this revenue reduction is expected to impact State balances and reserves for the 2002-2003 biennium, see "FINANCIAL RESULTS OF OPERATIONS—Combined State Balances and Reserves."

When the State closed the books for Fiscal Year 2001 on June 30, it was determined that actual General Fund-PTRF Revenues were $106.9 million less than was projected in the April 11, 2001 forecast update. The Technical Forecast Committee is not scheduled to update the State's revenue forecast for the 2002-2003 biennium until December 2001, and it is not known what action the Committee will take at that time. For a discussion of how this revenue reduction is expected to impact State balances and reserves for the 2002-2003 biennium, see "FINANCIAL RESULTS OF OPERATIONS—Combined State Balances and Reserves."

Table 1 shown below summarizes actual Operating Revenues for the Fiscal Years ended June 30, 1997 through June 30, 2001 (the "Discussion Period"), as well as the Budget Agency's projected Operating Revenues for Fiscal Years ending June 30, 2002 and 2003. The revenues summarized herein are derived from the Budget

Agency's unaudited end-of-year working balance statements. See "FINANCIAL RESULTS OF OPERATIONS," including Tables 5 and 6.

Table 1
State Operating Revenues
(millions of $)

	Actual					Projected	
	FY19 97	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Individual Income Tax							
General Fund	$3,196.5	$3,434.8	$3,699.3	$3,753.3	$3,779.8	$4,037.0	$4,290.0
Sales and Use Tax							
General Fund	1,921.8	1,933.8	2,023.0	2,167.1	2,194.8	2,315.5	2,423.1
Property Tax Replacement Fund	1,191.1	1,317.1	1,373.0	1,484.3	1,499.2	1,569.1	1,642.0
Subtotal[1]	$3,112.9	$3,250.9	$3,396.0	$3,651.4	$3,694.0	$3,884.6	$4,065.1
Corporate Income Tax							
General Fund	$ 899.2	$ 938.1	$972.3	$ 859.2	$704.0	$824.0	$845.6
Property Tax Replacement Fund	100.1	77.4	72.1	126.1	151.3	94.0	95.4
Subtotal[1]	$ 999.3	$1,015.5	$1,044.4	$ 985.3	$855.3	$918.0	$941.0
Other – General[1] [2]	736.2	780.7	801.0	809.9	897.2	946.9	991.2
TOTAL GF And PTRF	$8,044.9	$8,481.9	$8,940.7	$9,199.9	$9,226.3	$9,786.5	$10,287.3

Note: Fiscal Year ended June 30

(1) Amounts projected by the Revenue and Technical Forecast Committee on April 11, 2001 have been adjusted for Fiscal Years 2002 and 2003 for revenue reductions enacted by the 1999 and 2000 General Assembly. See "STATE BUDGET PROFILE—Revenue Reductions."

(2) Includes a transfer of $103.4 million in Fiscal Year 2001 from the Medicaid Reserve, a transfer of $200 million in Fiscal Year 2002 from the Lottery and Gaming Surplus Account and transfers of $175 million and $100 million from the Lottery and Gaming Surplus Account and the Medicaid Reserve respectively.

Source: State Budget Agency

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Revenue Growth

Annual percentage increases for each component of Operating Revenues are reflected in Table 2 shown below.

Table 2
Growth in State Operating Revenues
(by percentage)

Fiscal Year	Individual Income Tax Revenue	Sales and Use Tax Revenue	Corporate Income Tax Revenue	Other Revenue	Total Revenue
1997	6.4[1]	4.9	1.8	12.2	6.3
1998	7.5	4.4	1.6	8.9	5.7
1999	7.7	4.5	2.9	3.2	5.5
2000	1.5	7.5	(5.7)	1.2	2.9
2001	0.7	1.2	(13.2)	10.8[2]	0.3
Average FY97-FY01	4.8	4.5	(2.5)	7.3	4.1
2002 projected	6.8[3]	5.1	7.3[3]	5.5[3] [4]	6.1
2003 projected	6.3[3]	4.6	2.5[3]	4.7[3] [5]	5.1

(1) The State received an additional estimated $41.8 million of individual income tax receipts in Fiscal Year 1997 which are not reflected above, but are reflected in Tables 1 and 5. These additional receipts resulted from refunds that would ordinarily have been made in Fiscal Year 1997 but which were actually made in Fiscal Year 1998.

(2) Includes a transfer of $103.4 million from the Medicaid Reserve.

(3) Represents projected growth rates after adjusting for a number of tax reductions enacted by the 1999 and 2000 General Assembly. See “STATE BUDGET PROFILE—Revenue Reductions” below.

(4) Includes a transfer of $200 million from the Lottery and Gaming Surplus Account.

(5) Includes transfers of $175 million and $100 million from the Lottery and Gaming Surplus Account and the Medicaid Reserve respectively.

Source: State Budget Agency

Revenue Reductions

State tax rates were not increased at any time during the Discussion Period. As a result of continuing strong growth in State revenues and record reserves and balances, the 1999 General Assembly enacted targeted tax cuts that have resulted in reductions in income taxes. In addition, in November, 1999, the General Assembly met for five days (which were counted as 2000 session days) and enacted a reduction in the State financial institutions tax. See “STATE BUDGET PROFILE—Corporate Income Taxes.” The tax cuts enacted by the 1999 and 2000 General Assemblies are projected to contribute to decreased total combined State balances and reserves. See “FINANCIAL RESULTS OF OPERATIONS—Combined State Balances and Reserves.” A summary of the tax cuts and other actions of the 1999 General Assembly follows:

- An increase in the renter’s deduction from $1,500 to $2,000 per year. It was estimated this would decrease individual income tax receipts by $10.9 million for Fiscal Year 2001.

- An increase in the exemption for school age dependents from $1,500 to $2,500 per year. It was estimated this would decrease individual income tax receipts by $58.6 million for Fiscal Year 2001.

- An increase in the deduction from $1,000 to $1,500 for persons age 65 and older who earn less than $40,000 annually. It was estimated this would decrease individual income tax receipts by $8.9 million for Fiscal Year 2001.

- A change to turn the State earned income tax deduction for families earning $12,000 or less enacted by the 1997 General Assembly into a refundable tax credit. It was projected this would effectively decrease net receipts by $3.4 million for Fiscal Year 2001.

- A change to allow a credit against property taxes on the first $12,500 assessed value in personal property, including inventory, from the property tax. When this law was passed by the 1999 General Assembly, it was estimated this change would decrease net property tax collections for local government by $41.2 and $84.2 million for Fiscal Years 2000 and 2001 respectively. Since the State replaces the revenue lost to local government, the impact to the State is an increase in State Property Tax Replacement Fund expenditures. By February, 2000, it became apparent that this credit would decrease net property tax collections for local government, and increase State Property Tax Replacement Fund expenditures, by significantly more than the original estimate. For Fiscal Year 2000 the actual cost to the State of this credit was $91.9 million, $50.7 million more than first estimated in 1999.

  In the 2001 session the General Assembly repealed the existing credit, effective January 1, 2002, substituting a new income tax credit effective January 1, 2003. Repeal of the existing credit reduces the amount of local revenues that will need to be replaced in FY 2002 by one-half and eliminates the need to replace local revenues in FY 2003. Revenue losses from the new credit are expected to begin when tax returns are filed in FY 2004 and are projected to total $83.9 million.

- A change to allow businesses and farmers to deduct 100% of property tax payments from State taxable income and allow homeowners to deduct up to $2,500 in property taxes from State taxable income. It was estimated these changes would decrease net collections by $146.5 million for Fiscal Year 2001.

- The 1999 General Assembly also shifted certain welfare costs from counties to the State. It was estimated this change would increase State distributions $46.4 million for Fiscal Year 2001.

A summary of the actions of the 2000 General Assembly, which occurred in November 1999, follows:

- A reduction in the State financial institutions tax. It was projected this would effectively decrease net receipts by $5.0 million for Fiscal Year 2001.

- This General Assembly also extended a research and development tax credit that was set to expire in 1999. As a result, the tax credit did not expire and corporate tax collections will not increase by an estimated $3.1 million for Fiscal Year 2001.

Lottery and Gaming Revenues

Gaming Revenues are dedicated funds and are not included in State Operating Revenues. However, Gaming Revenues represent a significant source of discretionary funding for the State. On January 22, 2001, the State Budget Agency estimated Gaming Revenues for the 2002-2003 biennium. The estimate reflected the State would have an unobligated balance of Gaming Revenues totaling about $349 million on June 30, 2001. In addition, new Gaming Revenues available to the State for the 2002-2003 biennium are estimated to total $463 million per year.

By statute, certain revenues from the Hoosier Lottery (after pension account transfers) and the riverboat gaming wagering tax, horse racing pari-mutuel wagering tax and charity gaming taxes and license fees (collectively, “Gaming Revenues”) must be deposited in the Lottery and Gaming Surplus Account (the “Surplus Account”) of the Build Indiana Fund, which was established by the General Assembly in 1989 when the Hoosier Lottery was authorized and began operations.

From Fiscal Year 1990 through June 30, 2000, $2,628.0 million of Gaming Revenues have been transferred to the State. In Fiscal Year 2001, Gaming Revenues totaling $395.1 million were deposited in the Surplus Account from the following sources:

Hoosier Lottery	$100.0 million[(1)]
Riverboat gaming	260.2 million
Horse racing	2.0 million
Charity gaming	6.0 million
Interest earnings	26.9 million

(1) The 1999 General Assembly increased the annual transfer of Hoosier Lottery revenues for pension funding from $40.0 million to $60.0 million beginning with Fiscal Year 2000. The $113.2 million does not include the $60.0 million — $30.0 million to the State Teachers' Retirement Fund and $30.0 million to the Local Police and Fire Pension Relief Fund — transferred to the pension funds before remaining Hoosier Lottery revenues were transferred to the Surplus Account. Therefore, total lottery revenues for Fiscal Year 2000 were $173.2 million. See "STATE RETIREMENT SYSTEMS."

Source: State Budget Agency.

All Gaming Revenues are appropriated by the General Assembly, and the statute that governs deposits of those revenues also governs priority of distribution in the event that revenues fall short of appropriations. At present, the highest distribution priority is to the State's counties for motor vehicle excise tax replacement providing for a substantial cut in the excise tax charged on motor vehicles — estimated at $235 million for Fiscal Year 2001, the second year of the current biennium and each year thereafter. After payment of the motor vehicle excise tax replacement, funds remaining in the Surplus Account are transferred to the State and Local Projects Account where second priority distributions are made to the Indiana Technology Fund — $52.6 million for the 2002–2003 biennium. This appropriation includes $48.6 million to help schools and libraries expand their technological capabilities and $4 million for the Intelenet Commission for continued development of the State computer "backbone."

All remaining gaming funds are subject to discretionary appropriation by the General Assembly. Although it has been State policy to not use gaming revenues to fund operating expenses of the State, the 2001 General Assembly made a decision to use excess Gaming revenues on a temporary basis to help offset General Fund revenue decreases resulting from the current economic slowdown. The 2001 General Assembly included a provision in the State's 2002-2003 biennial budget to transfer $200 million in Fiscal Year 2002 and $175 million in Fiscal Year 2003 from the Build Indiana Fund to the Property Tax Replacement Fund (PTRF) to help balance the State budget. Because there were significant balances in the Build Indiana Fund, the General Assembly was able to appropriate funds for additional priorities as well. In addition to the transfers to the PTRF, the 2002-2003 biennial budget includes $78 million for the biennium for local capital projects, $29 million each year for higher education technology, $25 million each year for the 21st Century Research and Technology Fund, $15 million each year for community wastewater and drinking water grants and loans, and $9 million for the biennium for local election and voter registration equipment.

The Budget Agency has estimated that after funding existing commitments for pension funds and motor vehicle excise tax replacement, after making the transfers to the Property Tax Replacement Fund and making deductions for the above spending priorities, there will be a balance in the Build Indiana Fund - State and Local Projects Account of about $9 million on June 30, 2003. See "FINANCIAL RESULTS OF OPERATIONS—2002-2003 Biennial Budget."

The State's 2002-2003 Biennial Budget

Based on the April 11, 2001 Revenue Forecast, the Budget Agency estimated the current economic downturn would cause General Fund-PTRF revenues for Fiscal Years 2001 – 2003 to be about $1,630 million less than what total revenues would have been expected to be for the same period without the economic slowdown. (See "STATE BUDGET PROFILE—Revenue Forecast") This expected reduction in Operating Revenues for the 2002-2003 biennium presented the Governor and the General Assembly with a difficult challenge in preparing the biennial

State budget. To address this revenue shortfall, the General Assembly adopted a financial plan that relies on the three following actions:

- Transfers to the General Fund-Property Tax Replacement Fund from Gaming Revenues and the Rainy Day Fund.

  The 2001 General Assembly included a provision in the State's 2002-2003 biennial budget to transfer $200 million in Fiscal Year 2002 and $175 million in Fiscal Year 2003 from the Build Indiana Fund to the Property Tax Replacement Fund (PTRF). This increases the amount available to spend from the General Fund-PTRF by $375 million for the biennium. See "STATE BUDGET PROFILE—Lottery and Gaming Revenues."

  The State's 2002-2003 biennial budget also provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund. First, the budget establishes a maximum balance in the Rainy Day Fund for the 2002-2003 biennium. The maximum is effectively set at the Fund balance existing on June 30, 2001, $526 million. The Budget Agency estimates this provision will result in a transfer of $26.3 million from the Rainy Day Fund to the General Fund in each year of the biennium.

  Second, with the approval of the Governor, and after review by the State Budget Committee, the Budget Agency may transfer, in each year of the biennium, from the Rainy Day Fund to the General Fund, amounts determined by the Budget Director to be necessary to maintain a positive balance in the General Fund. This provision effectively permits the Budget Agency to transfer funds from the Rainy Day Fund to the General Fund to cover all General Fund-PTRF spending authorized in the biennial budget. It is currently estimated that no Rainy Day Fund transfers (other than those explained in the preceding paragraph) will be needed during the 2002-2003 biennium to balance the General Fund—PTRF budget. However, this provision exists and is available should actual revenue collections fall short of the State revenue forecast period. See "FISCAL POLICIES—Rainy Day Fund" and "FINANCIAL RESULTS OF OPERATIONS—Fund Balances, Rainy Day Fund."

- Possible delays in payments for local school aid, higher education and property tax relief. Although the General Assembly appropriated a full years funding for each year of the biennium for local school aid, higher education and property tax relief, the budget passed by the General Assembly effectively permits the Budget Agency to delay until Fiscal Year 2003 one regular payment for each purpose that would otherwise have been made in Fiscal Year 2002. This could have the effect of moving as much as a total of $573.9 million in appropriations for the 2002-2003 biennium into the 2004-2005 biennium. It is not clear at this time how much, if any, of these payments will actually be delayed. The Governor and the Budget Agency will make decisions about payment delays based largely on State revenue collections in Fiscal Year 2002. On July 1, 2001, the Budget Agency estimated total payment delays for the biennium at $556 million.

- Modest spending reductions in general governmental operations. The final spending plan agreed to by the Governor and the General Assembly for the 2002-2003 biennium increased the requirement for General Fund-PTRF reversions – funds appropriated but left unspent at the end of a Fiscal Year - by $25 million for each year. These "mandatory reversions" are expected to cause total General Fund-PTRF spending for the operation of government to be $25 million less than otherwise would have been expected for each year of the biennium. It is expected that under the direction of the Governor, the Budget Agency will selectively reduce budget allotments to create the mandatory reversions. See "FISCAL POLICIES—Accounting System."

The actions outlined above permitted passage of a budget that included funding increases for essential governmental services and made strategic economic investments for the 2002-2003 biennium. Those appropriation increases can be described in four broad categories:

- those reflecting the State's commitment to invest in primary, secondary and higher education.
- a continuing commitment to support the development and use of new technology and promote economic development.
- public safety, including increased spending to open and operate two new correctional facilities.

- those aimed at improving the care of developmentally and mentally challenged adults and children.

For Fiscal Year 2002, the first year of the new biennium, estimated spending for the five largest functional categories total $8,595.0 million, or about 84.1% of the General Fund - PTR Fund combined total. Following is a discussion of those five largest categories. Numbers are derived from the Budget Agency's biennial List of Appropriations and unaudited working statements. See "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund."

Local School Aid. The State's largest operating expense payable from both the General Fund and PTRF is for local school aid. Local school aid includes distributions for programs such as assessment and performance in addition to direct tuition support. As a matter of long-standing fiscal policy, the General Assembly funds increases in local school aid above the base by appropriating one-half of the increases from the General Fund and one-half of such increases from the PTRF. The General Assembly established the State's calendar year 1972 funding level as a base for local school aid.

Local school formula funding for direct tuition support on a school by school basis increased by an average of 3.5% for calendar years 2002 and 2003 with no school corporation receiving an increase of less than 2.0% in regular tuition dollars. Combined local school aid appropriations for Fiscal Year 2002 from the General Fund—PTRF total $4,182.3 million and constituted 40.5% of the combined General Fund—PTRF budget.

The 2002—2003 biennial budget also included funding for several new or expanded initiatives. The budget included $20 million for professional teacher development in Fiscal Year 2003, $10 million per year to implement full day kindergarten, $2.5 million per year for reading diagnostic assessment and funding to move the kindergarten enrollment date from June 1 to July 1.

Higher Education. The second largest operating expenditure, payable solely from the General Fund, is aid to higher education. Higher education aid includes appropriations to State-supported higher education institutions equal to debt service due on qualified debt of such institutions. See "Fee Replacement Appropriations to State Universities and Colleges" below. General Fund appropriations for higher education for Fiscal Year 2002 total $1,409.8 million and constitute about 13.7% of the estimated combined General and PTR Fund spending level. This represents an increase for Higher Education of about $62.1 million, or 4.6%, over estimated Fiscal Year 2001 spending.

Appropriations for the 2002-2003 biennium include $3.25 million per year for additional community college start-ups, $6 million to freeze fees at Vincennes University and Indiana Vocational Tech College in support of the community college program and $4.8 million for a new School of Informatics at Indiana University.

Fee Replacement Appropriations to State Universities and Colleges

Since Fiscal Year 1976, the General Assembly has appropriated to each State university and college an amount equal to the annual debt service requirements due on qualified outstanding Student Fee and Building Facilities Fee Bonds and other amounts due with respect to debt service and debt reduction for interim financings (collectively, "Fee Replacement Appropriations"). The annual Fee Replacement Appropriations are not pledged as security for such bonds and other amounts. Under the State constitution, the General Assembly cannot bind subsequent General Assemblies to continue the present Fee Replacement Appropriations policy; however, it is anticipated that the present policy will continue for outstanding bonds and notes.

The (a) estimated aggregate principal amount of bonds and notes issued by State universities and colleges and outstanding on June 30, 2000, which is eligible for Fee Replacement Appropriations, and (b) amount of Fee Replacement Appropriations with respect thereto for Fiscal Year 2002 is shown below.

	Estimated Amount of Debt Outstanding	Fiscal Year 2002 Fee Replacement Appropriation
Ball State University	$ 67,135,000	$ 9,460,987
Indiana University [(1)]	426,142,045	52,323,279
Indiana State University	56,785,000	7,159,560
Indiana Vocational Tech College	74,126,330	10,044,038
Purdue University[(2)]	197,467,294	33,643,833
University of Southern Indiana	34,458,101	3,989,274
Vincennes University	16,176,421	2,070,468
Total	$872,290,191	$118,691,439

(1) Includes its regional campuses other than Indiana University-Purdue University at Fort Wayne.
(2) Includes its regional campuses other than Indiana University-Purdue University at Indianapolis.

Source: Indiana Commission for Higher Education.

Property Tax Relief. The third largest operating expenditure, payable solely from the PTRF, is for property tax relief. The budget for the 2002-2003 biennium extended the Homestead Credit at 10% until December 31, 2003. The 10% level was set to expire and return to 4% on December 31, 2001. Spending for property tax relief, including the Homestead Credit and additional credits enacted by the 1999 General Assembly is expected to total $1,179.8 million for Fiscal Year 2002, about 11.4% of the combined General Fund-PTRF spending level. See "STATE BUDGET PROFILE—Revenue Reductions."

Medicaid. The fourth largest operating expenditure, payable largely from the General Fund is the State's share of Medicaid assistance. On April 11, 2001, the Department of Family and Social Services (FSSA) updated its December, 2000 Medicaid forecast for the 2002-2003 biennium. FSSA estimated Medicaid costs of $1,193.6 million for Fiscal Year 2002 and $1,289.1 million for Fiscal Year 2003. The Budget Agency adjusted the Medicaid forecast to reflect estimated actual cash outlays for each year. After adjustment, estimated expenditures total $1,178.5 million for Fiscal Year 2002 and $1,273.9 million for Fiscal Year 2003. This represents a first year increase of $86.7 million or about 7.9%. This comparatively large increase is partly due to the State's aggressive effort to enroll children in the Children's Health Insurance Program (CHIP). However, the forecast also reflected relatively large increases for reimbursements to hospitals and pharmacy drugs. As a result, the General assembly set appropriations for the State share of Medicaid at $1,171.0 million for Fiscal Year 2002 and $1,248.8 million for Fiscal Year 2003. This represents approximately 11.3% of combined General-PTR Fund appropriations for Fiscal Year 2002. At the same time, the General Assembly directed FSSA to undertake an aggressive package of cost containment initiatives aimed at reducing the growth in State spending for Medicaid for Fiscal Years 2002-2003. The most significant cost containment initiatives include:

- A requirement for the provision of a program for managed care in certain counties by January 1, 2003
- Implementation of a pharmaceutical benefit management program (PBM) for the Medicaid prescription drug program by September 1, 2001
- Implementation of a disease management program for Medicaid recipients with certain high cost diseases by July 1, 2002
- In cooperation with State Attorney General's office, conduct an audit of the State Medicaid prescription drug program to identify incorrect billing procedures or fraud
- Reduce reimbursements to hospitals and nursing homes by about 5%
- Eliminate Medicare crossover claims
- Reduce the pharmacy dispensing fee from $4.00 to $3.00 per filled prescription

- Extend the use of generic drugs permitted under the Medicaid program to CHIP

- Reduce reimbursement rates for over the counter drugs by 10%

This comprehensive package of cost containment initiatives was expected to result in decreased expenditures of up to $81 million for Fiscal Year 2002 and $120 million for Fiscal Year 2003. However, it is not certain that all of these initiatives will be fully implemented as early as contemplated by the General Assembly and it is not certain that the initiatives when implemented will result in as much savings as were projected. Therefore, actual savings may not be as great as the initial estimates.

The budget also included funding for increased base spending on Medicaid. The budget plan specifically authorized increased spending for the following:

- Targeted physician fee increases

- An increase in the number of Medicaid waiver slots

- An increase in Medicaid waiver reimbursement rates

- An increase for placements in group homes

Increased spending for these items is expected to cost up to $14.7 million for Fiscal Year 2002 and $30.5 million for Fiscal Year 2003.

In addition, in late June, the State lost a lawsuit which changes the medical eligibility criteria for determining whether an applicant is eligible to receive Medicaid disability benefits. This decision is expected to significantly increase annual Medicaid spending. See “LITIGATION.”

After considering appropriation levels for the new biennium, estimated savings from cost containment, increased base spending authorized under the new budget and likely increased spending as a result of the above-referenced Medicaid decision (See “LITIGATION”), the Budget Agency estimated additional spending beyond the appropriation levels in the biennial budget for Medicaid of $100 million and $150 million for Fiscal Years 2002 and 2003 respectively. The Budget Agency has accounted for these additional amounts on the State’s General Fund—PTRF Statement. The General Assembly placed the Medicaid Reserve for the biennium at $100 million. The Budget Agency also estimates the full $100 million Reserve will be needed in Fiscal Year 2003 to meet estimated Medicaid costs for that year. See “FINANCIAL RESULTS OF OPERATIONS,” including “Table 5, Combined General and PTR Fund” and “Medicaid Reserve.”

Department of Correction. The fifth largest operating expenditure, payable almost entirely from the General Fund, is for the Department of Correction. To meet a growing prison population, the 1997 General Assembly authorized the State Office Building Commission to issue bonds to finance the construction of: (1) Phase I of the Miami Correctional Facility, an additional medium security facility to provide 1,400 beds for adult males in Miami County, Indiana; (2) an additional 350 bed correctional facility for male juveniles near Pendleton, Indiana; and, (3) a special needs facility with 1,800 beds to be converted from an existing State institution near New Castle, Indiana. In addition, the 1999 General Assembly authorized the State Office Building Commission to issue bonds to finance Phase II of the Miami Correctional Facility. See “STATE INDEBTEDNESS—Authorized but Unissued Debt.” Phase I of the Miami Correctional Facility was completed in July, 1999. The Pendleton Juvenile Facility opened in July, 2000. Phase II of the Miami Correctional Facility and The New Castle Correctional Facility are both expected to be open and start receiving inmates in the Fall of 2001. The opening of these two new facilities will cause spending for corrections to grow in the 2002-2003 biennium. Appropriations for the Department of Correction for Fiscal Year 2002 total $565.9 million, an increase over actual Fiscal Year 2001 spending of about $38.2 million or 7.2%. Department of Correction accounts for about 5.5% of total General Fund-PTRF appropriations for Fiscal Year 2002.

Other. The balance of State expenditures is comprised of spending for a combination of other purposes, the principal ones being the costs of institutional care and community programs for persons with mental illnesses and developmental disabilities, State administrative operations, the State's share of public assistance payments, the General Fund's one-half share of State Police costs, State economic development programs and General Fund expenditures for capital budget needs of the State. For Fiscal Year 2002 other combined General Fund-PTRF appropriations total $1,711.1 million. This constitutes approximately 16.6% of the estimated combined General and PTR Fund spending level for all purposes.

Transfers. In addition to direct General Fund expenditures, transfers may be made out of or into the General Fund. The principal transfers are (a) from the General Fund to the PTRF and the Rainy Day Fund or (b) from the Rainy Day Fund to the PTRF and the General Fund and for the 2002-2003 biennium, (c) from the Build Indiana Fund to the General Fund. See "FISCAL POLICIES—Rainy Day Fund," "FINANCIAL RESULTS OF OPERATIONS," including "Table 5, Combined General and PTR Fund" and "STATE BUDGET PROFILE—Lottery and Gaming Revenues."

Governor's Spending Reductions

On July 11, 2001, Governor O'Bannon announced spending cuts and pledged to aggressively identify ways to address current budget shortfalls. The Governor announced he had instructed the Budget Agency to withhold allotments and set aside 7% of most executive-branch operating budgets. See "FISCAL POLICIES—Accounting System" regarding the Budget Agency's authority to withhold allotments. At a minimum, this set aside will insure that the State meets the General Fund reversion targets of $50 million per year included in the 2002-2003 biennial spending plan. See "STATE BUDGET PROFILE—The State's 2002-2003 Budget." However, in calling for fiscal restraint, the Governor announced additional actions designed to reduce State spending as follows:

- Review contracted services and State grants
- Review the State staffing table and personnel costs
- Review State programs for possible suspension, cuts or elimination
- Consider implementing more fee increases

The 7% setaside could generate savings totaling about $114 million for the biennium if fully implemented. However, it is expected that the 7% will not apply, or will not fully apply, to certain high priority programs which are still under review. Therefore, it is too early to determine exactly how much savings in addition to the $50 million reversion target will be generated in each year.

The Governor did not impose restrictions on allotments for capital spending including lease rentals which are included in the State's capital budget. The Budget Agency is generally limiting spending for new capital projects and major renovations. However, there are no restrictions on allotment of appropriations for any lease rental payments associated with any lease appropriation debt.

FINANCIAL RESULTS OF OPERATIONS

Fiscal Management

Indiana's fiscal policy is aimed at building and maintaining strong unappropriated balances and reserves in its Rainy Day and combined General and PTR Fund, while adequately funding education and other essential governmental functions, wisely managing debt issuance and aggressively addressing unfunded liabilities in State pension, or retirement systems, especially the State Teachers' Retirement Fund. See also "STATE RETIREMENT SYSTEMS."

Fund Balances

The State has four primary funds that build or hold unappropriated reserves: the Rainy Day Fund, Tuition Reserve, Combined General and PTR Fund and the Medicaid Reserve Account. The Medicaid Reserve Account will be included as a part of the State's combined balances and reserves on July 1, 2001. Each of these funds is described below.

Rainy Day Fund. One of three primary funds into which general purpose tax revenues are deposited, the Rainy Day Fund is a statutorily required State savings account that permits the State to collect and maintain substantial revenues during periods of economic expansion for use during periods of economic recession. As described under "FISCAL POLICIES — Rainy Day Fund," access to and balances in the Rainy Day Fund are determined by statutory formula, subject to future General Assembly action. The Rainy Day Fund has been funded at the maximum permitted by law in each of the last four Fiscal Years.

However, the State's 2002-2003 biennial budget provides two separate mechanisms for transfer of funds from the Rainy Day Fund to the General Fund during Fiscal Years 2002 and 2003. First, the budget establishes a maximum balance in the Rainy Day Fund for the 2002-2003 biennium. The maximum is effectively set at $526 million—the Fund balance existing on June 30, 2001. The Budget Agency estimates this provision will result in a transfer of $26.3 million from the Rainy Day Fund to the General Fund in each year of the biennium. These transfers will result in balances in the Rainy Day Fund on June 30, 2002 and 2003 that are $28.6 million and $53.2 million less than the maximum balance which would have been allowed for each respective year had the General Assembly not capped the Fund balance at the June 30, 2001 level.

Second, with the approval of the Governor, and after review by the State Budget Committee, the Budget Agency may transfer, in each year of the biennium, from the Rainy Day Fund to the General Fund, amounts determined by the Budget Director to be necessary to maintain a positive balance in the General Fund. This provision effectively permits the Budget Agency to transfer funds from the Rainy Day Fund to the General Fund to cover all General Fund-PTRF spending authorized in the biennial budget. It is currently estimated that no Rainy Day Fund transfers will be needed during the 2002-2003 biennium to balance the General Fund-PTRF budget. However, this provision exists and could be utilized should actual revenue collections fall short of the State revenue forecast.

The 2001 General Assembly increased the amounts that certain local units may borrow from the Rainy Day Fund under certain conditions. If all local units borrow the maximum for which they are now eligible, loans from the Rainy Day Fund could increase by $11.4 million during the 2002-2003 biennium. All loans are subject to approval of the Board of Finance and must be repaid no later than 10 years from the date the loans are made.

The State has never had any automatic withdrawals from the Rainy Day Fund to the General Fund. Rainy Day Fund balances are reflected on Table 3.

Table 3
Rainy Day Fund
Schedule of Cash Flow
(millions of $)

	. . . . Actual					Projected	
	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Beginning Cash Balance	$ 439.5	$ 466.1	$ 496.1	$ 524.7	$ 539.9	$526.0	$526.0
Interest Earned[1]	25.7	27.2	27.5	29.8	32.2	26.3	26.3
Principal Payments and Sale Proceeds[2]	0.7	0.5	0.5	0.5	0.1	-	-
Net Transfers by Law[3]	0.2	2.4	0.6	(15.1)	(46.2)	-	-
Transfer to Maintain Balance[4]	N/A	N/A	N/A	N/A	N/A	(26.3)	(26.3)
Ending Cash Balance	$ 466.1	$ 496.1	$ 524.7	$ 539.9	$ 526.0	$526.0	$526.0
Maximum Allowable Fund Balance	$ 466.1	$ 496.1	$ 524.7	$ 541.1	$ 526.0	$554.6	$579.2
Loans Outstanding[5]	$ 2.1	$ 1.4	$ .8	$ 0.5	$ .9	$ .9	$ .9

Notes: Totals may not add as a result of rounding.
Fiscal Years ended June 30

(1) Interest assumed at 5.0% for Fiscal Years 2002-2003; includes interest payments received on loans made.

(2) Payments of principal received on loans made.

(3) Net Transfers reflect: (a) in Fiscal Year 1997, a $19.8 million transfer from the General Fund and a $19.6 million transfer to the PTRF; (b) in Fiscal Year 1998, a $21.1 million transfer from the General Fund and $18.7 million transfer to the PTRF; (c) in Fiscal Year 1999, a $140.9 million transfer from the General Fund and a $140.3 million transfer to the PTRF; (d) in Fiscal Year 2000, a $162.1 million transfer to the PTRF; and a $147.0 million transfer from the General Fund; and (e) in Fiscal Year 2001, a $202.5 million transfer to the PTRF; and a $156.2 million transfer from the General Fund.

(4) It is estimated $26.3 million will be transferred to the General Fund in Fiscal Year 2002 and in Fiscal year 2003 to maintain the June 30, 2001 level of $526.0 million.

(5) Includes loans totaling $894,811 to City of Hammond, City of Beech Grove and Beech Grove schools. No further loans may be made without authorization by the General Assembly.

Source: State Budget Agency.

Tuition Reserve. The Tuition Reserve is essentially a cash flow device that is intended to ensure that local school aid payments are timely. Pursuant to State statute, prior to each June 1, the Budget Agency is required to estimate and formally establish the reserve for the ensuing Fiscal Year. The Tuition Reserve was maintained at $120.0 million from Fiscal Year 1977 through Fiscal Year 1988; however, the State steadily increased the amount of the Tuition Reserve from Fiscal Year 1989 through 2000. The Tuition Reserve was set at $265.0 million for Fiscal Year 2001. The Budget Agency expects to use a portion of the Tuition Reserve to help balance the budget in Fiscal Years 2002 and 2003. This is expected to reduce the Tuition Reserve to $213.3 million and $90.3 million for Fiscal Years 2002 and 2003 respectively as shown below.

Table 4
Tuition Reserve
(millions of $)

Actual						Projected	
FY 1996	FY 1997	FY 1998	FY1999	FY 2000	FY 2001	FY 2002	FY 2003
$ 215.0	$ 240.0	$ 240.0	$ 255.0	$ 265.0	$ 265.0	$213.3	$90.3

Note: For Fiscal Year ended June 30

Source: State Budget Agency

Combined General and PTR Fund. The PTRF was created by statute in Fiscal Year 1973. It is funded from 40% of revenues from the State sales and use tax and a portion of corporate adjusted gross income tax receipts. The PTRF is used for two purposes: first, to replace local property tax levies ("PTRF Credits"), which were reduced by the same statute that created the PTRF; and, second, for local school aid. To the extent that the PTRF does not have sufficient revenues to make authorized payments, General Fund transfers may be made to the PTRF. In Fiscal Year 2001, $721 million was transferred from the General Fund to balance the PTRF. It is expected that substantial General Fund transfers will also be required in future Fiscal Years.

The General Fund and the PTRF are the primary funds into which general purpose tax revenues, or Operating Revenues, are deposited or transferred. Although reported as a special revenue fund, it is helpful to combine the receipts and disbursements of the PTRF with those of the General Fund to provide a more complete and accurate description of the State's Operating Revenues and discretionary spending, especially for local school aid and property tax relief. Therefore, the General Fund and the PTRF are sometimes discussed in this Appendix B as a single, combined fund.

This discussion, and Table 5, summarize the actual results of State operations for the Discussion Period, as well as the Budget Agency's projected financial results of operations for the Fiscal Years ending June 30, 2002 and 2003, for the combined General and PTR Fund.

The financial results summarized in this discussion are derived from the Budget Agency's unaudited end-of-year working balance statements. The working balance statements are a listing of revenues, expenditures and unappropriated (or working) balances at the end of each Fiscal Year, before adjustment to the modified accrual basis of accounting. As a result, the working balance statements may differ from the results included in the State Auditor's annual reports.

There is not a significant difference in the method of accounting between the working balance statements and the annual reports. Expenditures on the working balance statements include continuing appropriations that were unspent at the end of each Fiscal Year. The unappropriated balance is the cumulative excess of revenues over expenditures on the working balance statements.

Table 5
Combined General and PTR Fund
(millions of $)

	Actual					Projected	
	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY2002[1]	FY2003[1]
Revenues[2]							
Sales and Use Taxes	$3,112.9	$3,250.9	$3,396.0	$3,651.4	$ 3,694.0	$3,884.6	$4,065.1
Adjusted Gross Income Tax Individuals	3,196.5	3,434.8	3,699.3	3,753.3	3,779.8	4,037.0	$4,290.0
Corporate Income Taxes	999.3	1,015.5	1,044.4	985.3	855.3	918.0	941.0
Other Taxes	321.7	340.8	373.9	370.3	376.5	380.9	375.8
Total Taxes	7,630.4	8,042.0	8,483.6	8,760.3	8,705.6	9,220.5	9,671.9
Interest Income	146.5	178.8	169.0	188.9	141.0	130.0	120.0
Other Revenue[3]	268.0	261.1	288.1	250.7	379.7	236.0	320.4
Transfer from Gaming[4]	-	-	-	-	-	200.0	175.0
Total Revenue	8,044.9	8,481.9	8,940.7	9,199.9	9,226.3	9,786.5	10,287.3
Appropriations and Expenditures							
Local School Aid	3,092.2	3,423.1	3,691.8	3,894.0	4,172.6	4,182.3	4,358.0
Higher Education	1,101.8	1,180.5	1,248.0	1,331.5	1,389.7	1,409.8	1,439.1
PTRF Credits	822.1	873.3	946.7	1,078.6	1,200.9	1,179.8	1,157.0
Medicaid[5]	931.3	913.3	948.5	986.1	1,077.4	1,271.0	1,398.8
All Other[6]	1,958.9	1,908.2	2,198.3	2,293.3	2,348.9	2,277.0	2,303.0
Subtotal Appropriations and Expenditures	7,906.3	8,298.4	9,033.3	9,583.5	10,189.5	10,319.9	10,655.9
Less:							
Reversions	-	-	-	-	102.9	25.0	25.0
Mandatory Reversions[7]	-	-	-	-	-	25.0	25.0
Total Reversions	-	-	-	-	102.9	50.0	50.0
Payment Delays:[8]							
Tuition Support	-	-	-	-	-	202.5	88.5
Higher Education	-	-	-	-	-	65.3	28.7
PTR Credits	-	-	-	-	-	118.9	52.1
Total Payment Delays	-	-	-	-	-	386.8	556.0
Total Expenditures	7,906.3	8,298.4	9,033.3	9,583.5	10,086.6	9,883.1	10,436.6
Excess (Deficiency) of Revenues Over Expenditures	138.6	183.5	(92.6)	(383.6)	(860.3)	(96.6)	(149.3)
Less: Transfers to (from) Rainy Day Fund	0.2	2.4	.6	(15.1)	(46.3)	(26.3)	(26.3)
Total Transfers	0.2	2.4	.6	(15.1)	(46.3)	(26.3)	(26.3)
Increase (Decrease) in Fund Balance	138.4	181.1	(93.2)	(368.5)	(814.0)	(70.3)	(123.0)
Beginning Balance[9]	1,239.8	1,378.2	1,559.3	1,466.1	1,097.6	283.6	213.3
Ending Balance[9]	1,378.2	1,559.3	1,466.1	1,097.6	283.6	213.3	90.3

[1] Revenues are those projected by the Revenue and Technical Forecast Committee on April 11, 2001; expenditures are those authorized by the 2001 and prior General Assemblies. Amounts are merely projections, and actual results may differ materially from such projections. Important factors that could cause actual results to differ materially from projections include future economic conditions in Indiana, including retail sales, individual income and corporate income in Indiana and future changes to Indiana's tax laws and appropriations by the General Assembly. See "STATE BUDGET PROFILE—Revenue Growth."

[2] Amounts projected by the Revenue and Technical Forecast Committee on April 11, 2001 have been reduced to reflect revenue reductions enacted by the 1999 and 2000 General Assemblies. See "STATE BUDGET PROFILE—Revenue Reductions."

[3] Includes transfers from the Medicaid Reserve of $103.4 million for Fiscal Year 2002 and $100 million for Fiscal Year 2003.

[4] Transfers from the Lottery and Gaming Surplus Account to help balance the budget for Fiscal Years 2002 and 2003.

[5] Includes an additional $100 million for Fiscal Year 2002 and $150 million for Fiscal Year 2003 the Budget Agency expects will be needed to meet actual spending for those years. See "STATE BUDGET PROFILE—The State's 2002-2003 Budget—Medicaid."

[6] Includes $72.2 million adjustment to surplus for Fiscal Year 1999 for prior year expenditures and a $88.3 million appropriation transfer from Fiscal Year 2001 to Fiscal Year 2000 to accelerate capital projects, year 2000 remediation and School Library Printed Materials.

[7] Reflects an increase in reversions of $25 million per year included in the budget plan adopted by the 2001 General Assembly for the 2002-2003 biennium. See STATE BUDGET PROFILE—The State's 2002-2003 Biennial Budget."

[8] Reflects payment delays of $386.8 million in Fiscal Year 2002 and an additional $169.3 million in Fiscal Year 2003 for a total biennial total of $556.0 which payment delays were included in the budget plan adopted by the 2001 General Assembly for the 2002-2003 biennium. See "STATE BUDGET PROFILE—The State's 2002-2003 Biennial Budget."

[9] Includes a $240.0 million Tuition Reserve for Fiscal Year 1997 (actual), a $240.0 million Tuition Reserve for Fiscal Year 1998 (actual), a $255.0 million Tuition Reserve for Fiscal Year 1999 (actual), a $265.0 million Tuition Reserve for Fiscal Year 2000 (actual), a $265.0 million Tuition Reserve for Fiscal Year 2001 (actual), a $213.3 million Tuition Reserve for Fiscal Year 2002 (estimated) and a $90.3 million Tuition Reserve for Fiscal Year 2003 (estimated).

Notes: Fiscal Year Ended June 30
Totals may not add as a result of rounding.

Source: State Budget Agency.

Combined State Balances and Reserves

The State's total "Balances and Reserves" are defined as the balances in the combined General and PTR Fund, together with the balances in the Rainy Day Fund, the Tuition Reserve and beginning with Fiscal Year 2001, the Medicaid Reserve. To reflect the real level of Balances and Reserves on a continuing basis, they are expressed as a percent of Operating Revenues. Table 6 sets forth a history of total State Balances and Reserves compared to Operating Revenues for the past ten years and projections for Fiscal Years 2002-2003.

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Table 6
Combined State Reserves and Balances
(in millions of $)

State Fiscal Year	Combined Property Tax-General Fund	Tuition Reserve	Rainy Day Fund	Medicaid Reserve (2)	Total Balances	Operating Revenue	Balance as % of Operating Revenues
			- - - - - - - - -Actual - - - - - - - - -				
1992	138.9	165.0	328.6	N/A	632.5	5,784.5	10.9%
1993	9.7	180.0	300.6	N/A	490.3	6,098.6	8.0%
1994	90.0	190.0	370.3	N/A	650.3	6,720.1	9.7%
1995	679.3	200.0	419.3	N/A	1,298.6	7,277.0	17.8%
1996	1,024.8	215.0	439.5	N/A	1,679.3	7,569.8	22.2%
1997	1,138.2	240.0	466.1	N/A	1,844.3	7,937.8	23.2%
1998	1,319.3	240.0	496.1	N/A	2,055.4	8,481.9	24.2%
1999	1,211.1	255.0	524.7	N/A	1,990.8	8,940.7	22.3%
2000	832.6	265.0	539.9	N/A	1,637.5	9,199.9	17.8%
2001	18.6	265.0	526.0	100.0	909.5	9,226.3	9.9%
			- - - - - - - - -Projected - - - - - - - - -				
2002	-0-	213.3	526.0	100.0	839.3 (3)	9,786.5	8.6% (3)
2003	-0-	90.3	526.0	-	616.3 (3)	10,287.3	6.0% (3)

Source: State Budget Agency
Totals may not add due to rounding.

(1) Projected balances are based on the Revenue Forecast dated April 11, 2001 and revenue and spending acts passed by the General Assembly through the 2001 Session.
(2) The Medicaid Reserve was not included as a part of combined reserves and balances until Fiscal Year 2001.
(3) Does not reflect any liability for payment delays. (See explanation below)

The State closed Fiscal Year 2001 with Combined Reserves and Balances totaling $909.5 million, or 9.9% of Operating Revenues. This represents the lowest level of Combined Balances as a per-cent of Operating Revenues since Fiscal Year 1994 when Combined Balances totaled 9.7 of Operating Revenues. Balances and Reserves have dropped significantly from the high of $2,055.4 or 24.2% of Operating Revenues on June 30, 1998.

In 1999 and 2000 the General Assembly enacted a number of targeted tax reductions and spending increases. See “STATE BUDGET PROFILE—Revenue Reductions.” In addition, as a result of the current national economic decline, the State experienced significant revenue shortfalls in Fiscal Year 2001. The December 19, 2000 revenue forecast decreased estimated General Fund revenues for Fiscal Year 2001 and only modest revenue growth of 4.9% and 4.4% for Fiscal Years 2002-2003 respectively. The April 11, 2001 forecast update resulted in additional decreases in revenue projections for Fiscal Years 2001-2003. Prior to the end of Fiscal Year 2001, the Budget Agency estimated that total General Fund- Property Tax Replacement Fund revenues for Fiscal Years 2001 – 2003 would be about $1,630.6 million less than total revenues would have been expected to be for the same period without the current economic slowdown. See “STATE BUDGET PROFILE—Revenue Forecast.”

When the State closed the books for Fiscal Year 2001 on June 30, it was determined that General Fund reversions (appropriations that were unspent at year end) were higher than was expected. The Budget Agency had estimated General fund reversions would be about $72.5 million. Actual reversions totaled $102.9 million, $30.4 million more than expected. However, actual General Fund-PTRF Revenues were $106.9 million less than was projected in the April 11, 2001 forecast update. After accounting for increased reversions, decreased revenue, transfers from the Medicaid Reserve and the Rainy Day Fund, combined balances and reserves were $909.5 million on June 30, 2001. The Budget Agency now estimates that combined balances will fall to $839.3 million, or 8.6% of Operating Revenues, on June 30, 2002 and $616.3 million or 6% of Operating Revenues, on June 30, 2003. The June 30, 2002 balance includes $100 million in the Medicaid Reserve that was not included in combined balances and reserves prior to Fiscal Year 2001.

Combined balances and reserves for Fiscal Years 2002 and 2003 shown in Table 6 do not reflect any liability for payment delays authorized for the 2002-2003 biennium. The Budget Agency estimates that if no funds are transferred to the General Fund from the Rainy Day Fund (beyond transfers needed to maintain the $526.0 million maximum balance established by the General Assembly) it will lead to General Fund-PTRF payment delays totaling $556.0 million by the end of Fiscal Year 2003. Delays in payments to schools, universities and local units of government have been authorized by the 2001 General Assembly. See "STATE BUDGET PROFILE—The State's 2002-2003 Biennial Budget." There is no legal obligation for the State to make up for any payments that actually get delayed. And, should actual revenue exceed estimates, the additional revenue could be used to reduce payment delays. However, there is a reasonable expectation that the General Assembly will attempt to make up any payments that do get delayed in the 2002-2003 biennium with increased funding in the 2004-2005 biennium. And, under the budget plan adopted by the General Assembly, the State could elect not to delay payments by making additional transfers from the Rainy Day Fund to the General Fund. For that reason, it is reasonable to consider the effect payment delays would have on combined reserves and balances if the payment delays were considered to be a liability of the State. If estimated payment delays for the biennium were reflected as liabilities of the State, combined reserves and balances for Fiscal Years 2002 and 2003 would drop to $452.5 million and $60.3 million respectively. This would represent 4.6% and 0.6% of Operating Revenues for those years respectively.

The Budget Agency believes the combination of reserves and balances and the ability to delay significant payments, provides the State sufficient flexibility to manage the budget even if actual General Fund/PTRF revenues fall significantly short of the State's revenue forecast for the 2002-2003 biennium.

Medicaid Reserve

In 1995, the General Assembly established the Medicaid Reserve and Contingency Account for the purpose of providing funds for the timely payment of Medicaid claims, obligations and liabilities. Prior to the start of Fiscal Year 2002, the Medicaid Reserve was intended to represent the estimated amount of obligations that were incurred, but remained unpaid, at the end of each respective Fiscal Year. For the 2002-2003 biennium, the General Assembly set the Reserve level at $100 million, and for the first time, the Budget Agency included the Reserve in the State's combined Balances and Reserves. The State used about $58.5 million of the $203.8 million balance in the Reserve to pay for an appropriation shortfall for Fiscal Year 2001. That left a balance in the Reserve of $145.3 million on June 30, 2001. On July 1, 2001, the Budget Agency transferred $44.9 million to the General Fund to set the Reserve at the $100 million level for the 2002-2003 biennium.

STATE INDEBTEDNESS

Constitutional Limitations on State Debt

The State may not incur indebtedness under Article X, Section 5 of the State constitution, except in the following cases: to meet casual deficits in revenues; to pay interest on State debt; or to repel invasion, suppress insurrection or, if hostilities are threatened, to provide for the public defense. The State has no indebtedness outstanding under the Indiana constitution. See "FISCAL POLICIES—State Board of Finance."

Other Debt, Obligations

Substantial indebtedness anticipated to be paid from State appropriations is outstanding, together with what are described below as "contingent obligations." Such indebtedness and obligations are described in the following pages. In addition, various State universities and colleges have issued bonds, notes and other obligations, the debt service on which, though payable from student fees and other sources, is eligible for fee replacement appropriations by the General Assembly from State general purpose tax revenues. See "STATE BUDGET PROFILE—The State's 2000-2001 Biennial Budget—Higher Education." In addition, the commissions and authorities described below may issue additional debt or incur other obligations from time to time to finance additional facilities or projects or to refinance such facilities or projects. The type, amount and timing of such additional debt or other obligations not already authorized is subject to a number of conditions that cannot be predicted at present. See “STATE INDEBTEDNESS—Authorized but Unissued Debt.”

Obligations Payable from Possible State Appropriations

The Indiana General Assembly has created certain financing entities, including the State Office Building Commission, the Transportation Finance Authority, the Recreational Development Commission and the Indiana Bond Bank which are each public bodies corporate and politic and separate from the State. These financing entities have been granted the authority to issue revenue bonds and finance the construction, reconstruction and equipping of various capital projects. Certain agencies, including the Indiana Department of Administration, the Indiana Department of Transportation and the Indianapolis Airport Authority (under an agreement with the Indiana Department of Commerce) have entered into use and occupancy agreements or lease agreements with the financing entities. Lease rentals due under the agreements are payable primarily from possible appropriation of State funds by the General Assembly**.** However, there is and can be under State law no requirement for the General Assembly to make any such appropriations for any facility in any Fiscal Year. No trustee or holder of any revenue bond issued by any financing entity may legally compel the General Assembly to make any such appropriations. Revenue bonds issued by any of the financing entities do not constitute a debt, liability or pledge of the faith and credit of the State within the meaning of any constitutional provision or limitation. Such use and occupancy agreements, lease agreements and obligations do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Following is a description of the entities that have issued bonds and the projects that have been financed with the proceeds and which are subject to use and occupancy agreements or lease agreements.

State Office Building Commission. The State Office Building Commission is authorized to issue revenue bonds to finance or refinance the acquiring, construction and equipping of buildings, structures, improvements or parking areas owned or leased by the State Office Building Commission or the State for the purpose of (a) housing the personnel or activities of State agencies or branches of State government; (b) providing transportation or parking for State employees or persons having business with State government; (c) providing a building, structure or improvement for the custody, care, confinement or treatment of committed persons under the supervision of the State Department of Correction; (d) providing a building, structure or improvement for the care maintenance or treatment of persons with mental or addictive disorders; or (e) providing regional health facilities.

Pursuant to this general authority, as well as specific findings of need by the General Assembly, the State Office Building Commission has issued its revenue bonds to finance or refinance various facility projects, described below:

Facility	Project Description
Indiana Government Center Parking Facilities	Acquisition, constructing and equipping of two new multi-level parking facilities
Indiana Government Center South	Acquisition, constructing and equipping of new State office building facility
Indiana Government Center North	Renovation of and construction of improvements to original State office building facility
Wabash Valley Correctional Facility; Miami Correctional Facility, Phase I; Rockville Correctional Facility; and Pendleton Juvenile Correctional Facility	Acquisition, construction and equipping of men’s maximum security correctional facility and medium security correctional facilities; acquisition, construction, renovation and equipping of women’s correctional facility; and acquisition, construction and equipping of juvenile correctional facility

To see a listing by bond series of the outstanding indebtedness of the State Office Building Commission, see “STATE INDEBTEDNESS—Debt Statement Obligations Payable From Possible State Appropriations.”

The State Office Building Commission's revenue bonds are payable, or upon completion of the construction of the facility (or portions thereof) will be payable, principally from rental payments on such facility (or portions thereof) to be made by the State Department of Administration pursuant to a use and occupancy agreement for such facility (or portions thereof). The term of each such use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments by the Department of Administration with respect to each such facility are and will be subject to and dependent upon appropriations being made for such purpose by the General Assembly.

The State Office Building Commission also provides short-term, or construction, financing for certain facilities through issuance and sale "Hoosier Notes." For a more detailed description of the Commission's Hoosier Notes program, see "STATE INDEBTEDNESS—Authorized but Unissued Debt."

Transportation Finance Authority - Highway Financing. The Indiana Transportation Finance Authority (the "TFA") was established in 1988 under Indiana Code 8-9.5-8, as the successor to the Indiana Toll Finance Authority. The TFA is a body corporate and politic separate from the State. When the General Assembly established the TFA, it enacted Indiana Code 8-14.5, which authorizes the TFA to: (a) undertake projects to construct, acquire, reconstruct, improve and extend the State's highways, bridges, streets and roads; (b) lease such projects to the Indiana Department of Transportation, formerly the Indiana Department of Highways; and (c) issue revenue bonds to finance or refinance such projects.

Pursuant to this authority, the TFA has issued its revenue bonds to finance the construction, acquisition, reconstruction, improvement and extension of the State's highways, bridges, streets and roads throughout Indiana. To see a listing by bond series of the indebtedness of the TFA for Highway Financing, see "Table 7—Schedule of Long Term Debt—Obligations Payable From Possible State Appropriations."

The TFA's bonds are corporate obligations of the TFA and are payable, as to both principal and interest, solely from revenues derived from leases with the Department of Transportation, bond proceeds and investment earnings on bond proceeds. The TFA has no taxing power, and any indebtedness incurred by the TFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation. Debt service on the bonds is payable primarily from rental payments to be received from the Department of Transportation pursuant to certain master lease agreements between the TFA and the Department of Transportation, as supplemented. The term of each such master lease agreement is coextensive with the State's biennial budget, but is renewable for additional terms of two years, up to a maximum aggregate lease term of 25 years. Lease rentals under each such master lease agreement are payable solely from biennial appropriations for the actual use or availability for use of projects financed by the TFA, with payment commencing no earlier than the commencement of such use or availability for use.

Transportation Finance Authority - Aviation Financing. In 1991, the General Assembly enacted Indiana Code 8-21-12, which authorizes the TFA to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds from time to time. The authorizing legislation defines "aviation related property or facilities" as those properties or facilities that are utilized by a lessee, or a lessee's assigns, who provides services or accommodations (a) for scheduled or unscheduled air carriers and air taxis and their passengers, air cargo operations and related ground transportation facilities, (b) for fixed based operations, (c) for general aviation or military users and (d) for aviation maintenance and repair facilities.

Airport Facilities. Pursuant to this authority, the TFA issued its revenue bonds to finance a portion of the costs of constructing and equipping improvements related to an airport and aviation related property and facilities at the Indianapolis International Airport (the "Airport Facilities"). At present, United Air Lines, Inc. is using the Airport Facilities as a major aircraft maintenance and overhaul facility. The TFA expects that United will continue to use the Airport Facilities for aircraft maintenance operations. To see a listing by bond series of the indebtedness of the TFA for Airport Facilities, see "Table 7—Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

The TFA has acquired an undivided ownership interest as a tenant in common in a leasehold estate in the Airport Facilities and certain real property on which the Airport Facilities are situated, and the TFA has leased its undivided ownership interest therein to the Indianapolis Airport Authority pursuant to a lease agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Airport Facilities Lease"). The Airport Facilities Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Airport Facilities Lease for the payment of the principal of and interest on the Airport Facilities Bonds. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Airport Facilities, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Airport Facilities Bonds are not an obligation, directly or indirectly, of United Air Lines, Inc.

<u>Aviation Technology Center</u>. Also pursuant to the authority granted the TFA for Aviation Financing, the Authority issued Aviation Technology Center Lease Revenue Bonds, Series A (the "Aviation Technology Center Bonds") in December 1992. To see a listing of the indebtedness of the TFA for the Aviation Technology Center, see "Table 7—Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

The proceeds from the Aviation Technology Center Bonds were applied to finance the costs of constructing and equipping a new aviation technology center (the "Aviation Technology Center") at Indianapolis International Airport. Vincennes University is operating the Aviation Technology Center, and Vincennes University and Purdue University are currently conducting classes for training individuals for employment in aviation technology and other fields related to aircraft, aircraft maintenance and airport operations. Recently, a Boeing 737 aircraft was added to the Aviation Technology Center for use for educational purposes by Vincennes and Purdue Universities.

The TFA has acquired an interest in the Aviation Technology Center and certain real property on which the Aviation Technology Center is situated, and the TFA has leased its interest to the Indianapolis Airport Authority pursuant to a Lease Agreement between the TFA, as lessor, and the Indianapolis Airport Authority, as lessee (the "Aviation Technology Center Lease"). The Aviation Technology Center Bonds are special, limited obligations of the TFA, payable solely from and secured exclusively by the TFA's pledge of a trust estate, including the rental payments to be received by the TFA from the Indianapolis Airport Authority under the Aviation Technology Center Lease. Such rentals are payable by the Indianapolis Airport Authority for the use or availability for use of the Aviation Technology Center, solely from funds appropriated by the General Assembly and available to pay such rentals.

The Aviation Technology Center Bonds do not constitute an indebtedness, liability or loan of the credit of the Indianapolis Airport Authority, the State or any political subdivision thereof within the meaning or application of any constitutional provision or limitation, or a pledge of the faith, credit or taxing power of the Indianapolis Airport Authority, the State or any political subdivision thereof. The Aviation Technology Center Bonds are not an obligation, directly or indirectly, of Vincennes University.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS—Contingent Obligations—Transportation Finance Authority—Toll Road Financing."

Recreational Development Commission. The Indiana Recreational Development Commission (the "Recreation Commission") was created in 1973 by Indiana Code 14-14-1 and is responsible for the acquisition, construction, improvement, operation and maintenance of public recreational facilities and for facilitating, supporting and promoting the development and use of parks of the State. Pursuant to Indiana Code 14-14-1-21, the Recreation Commission and the State Department of Natural Resources (the "DNR") may enter into agreements setting forth the terms and conditions for the use of park improvements by the DNR and the sums to be paid by the DNR for such use.

Pursuant to this authority, the Recreation Commission issued its Park Revenue Bonds to finance and refinance the costs of acquisition, construction, renovation, improvement and equipping of various facilities for public parks in the State (the "Park Projects"). To see a listing by bond series of the indebtedness of the Recreation Commission for Park Projects, see "Table 7 – Schedule of Long Term Debt Obligations Payable From Possible State Appropriations."

The Park Revenue Bonds are limited obligations of the Recreation Commission, payable solely from certain revenues and funds of the Recreation Commission pledged for such payment, including the net revenues from the Park Projects. These net revenues include primarily rental payments to be received by the Recreation Commission from the DNR for the DNR's use of the Park Projects under a master use and occupancy agreement, as supplemented by a supplemental agreement for each of the Park Projects. The term of the master use and occupancy agreement is coextensive with the State's biennial budget, but is renewable for additional two-year terms. Rental payments under the master use and occupancy agreement are subject to and dependent upon appropriations by the General Assembly having been made and being available for such purpose. The Park Revenue Bonds do not constitute a debt of the State or any political subdivision thereof or a pledge of the faith and credit of the State or any political subdivision thereof within the meaning of any constitutional provision or limitation.

Indiana Bond Bank. The only bonds issued by the Indiana Bond Bank which are payable from possible State appropriations are the Series 1998B Refunding Bonds issued in the principal amount of $10,830,000 to refund the Special Program Bonds, Series 1991 A. The Bond Bank issued the Series 1991 B Bonds in the principal amount of $11,760,000 to finance construction of the State's Animal Disease and Diagnostic Laboratory at Purdue University, West Lafayette. The essential security for the bonds is lease rentals payable under a lease between the State of Indiana, acting by and through the Department of Administration, as tenant, and The Trustees of Purdue University, as landlord. For a description of other powers and responsibilities of the Bond Bank, including its authority to issue other debt, see "STATE INDEBTEDNESS—Contingent Obligations—Indiana Bond Bank" and Table 10.

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Debt Statement - Obligations Payable From Possible State Appropriations

Table 7 lists, by issuing agency, all long term debt that is subject to possible State appropriations through July 1, 2001.

Table 7
Schedule of Long Term Debt
Obligations Payable From Possible State Appropriations

(as of July 1, 2001)

Issuer/Series	Original Par Amount	Ending Balance 01/01/01	(Redeemed)/ Issued	Ending Balance 07/01/01
State Office Building Commission				
Government Center Parking Facilities				
Series 1990A	$ 26,669,824	$ 10,475,690	$ (671,077)	$ 9,804,613
Series 1993A	42,410,000	33,335,000	(2,050,000)	31,285,000
Subtotal	$ 69,079,824	$ 43,810,690	$ (2,721,077)	$ 41,089,613
Government Center North				
Series 1990B	$ 77,123,542	$ 32,492,747	$ (2,081,244)	$ 30,411,503
Series 1993B	107,555,000	89,230,000	(4,145,000)	85,085,000
Subtotal	$ 184,678,542	$ 121,722,747	$ (6,226,244)	$ 115,496,503
Government Center South				
Series 1990C	$ 18,063,800	$ 7,089,520	$ (453,430)	$ 6,636,090
Series 1990D	110,675,000	53,710,000	0	53,710,000
Series 1993C	28,440,000	9,095,000	(420,000)	8,675,000
Series 2000B	43,400,000	43,400,000	(700,000)	42,700,000
Subtotal	$ 200,578,800	$ 113,294,520	$ (1,573,430)	$ 111,721,090
Correctional Facilities				
Series 1995A	$ 54,025,000	$ 52,790,000	$ (455,000)	$ 52,335,000
Series 1995B	47,975,000	45,475,000	(1,330,000)	44,145,000
Series 1998A	93,020,000	93,020,000	(2,450,000)	90,570,000
Series 1999A	96,785,000	94,020,000	(3,110,000)	90,910,000
Series 2000A	44,800,000	44,800,000	(1,600,000)	43,200,000
Subtotal	$ 336,605,000	$ 330,105,000	$ (8,945,000)	$ 321,160,000
TOTAL SOBC	$ 790,942,166	$ 608,932,957	$ (19,465,751)	$ 589,467,206
Transportation Finance Authority				
Highway Revenue Bonds				
Series 1990A	$ 72,498,391	$ 38,011,897	$ (1,904,265)	$ 36,107,632
Series 1992A	74,035,000	37,615,000	0	37,615,000
Series 1993A	193,531,298	152,711,298	(6,595,000)	146,116,298
Series 1996B	27,110,000	26,200,000	0	26,200,000
Series 1998A	175,360,000	175,360,000	0	175,360,000
Series 2000A	269,535,000	269,535,000	0	269,535,000
Subtotal	$ 812,069,689	$ 699,433,195	$ (8,499,265)	$ 690,933,930

Airport Facilities Bonds				
Series 1992A	$ 201,320,000	$ 52,040,000	$ 0	$ 52,040,000
Series 1995A	29,720,000	27,585,000	0	27,585,000
Series 1996A	137,790,000	137,790,000	0	137,790,000
Subtotal	$ 368,830,000	$ 217,415,000	$ 0	$ 217,415,000
Aviation Technology Bonds				
Series 1992A	$ 11,630,000	$ 10,020,000	$ (320,000)	$ 9,700,000
Subtotal	$ 11,630,000	$ 10,020,000	$ (320,000)	$ 9,700,000
TOTAL ITFA	$ 1,192,529,689	$ 926,868,195	$ (8,499,265)	$ 918,048,930
Recreational Development Commission				
Series 1994	$ 19,285,000	$ 18,575,000	$ (275,000)	$ 18,300,000
Series 1997	6,600,000	5,995,000	(215,000)	5,780,000
Subtotal	$ 25,885,000	$ 24,570,000	$ 490,000	$ 24,080,000
TOTAL IRDC	$ 25,885,000	$ 24,570,000	$ (490,000)	$ 24,080,000
Animal Disease & Diagnostic Laboratory				
Series 1998B	$ 10,830,000	$ 8,970,000	$ (325,000)	$ 8,645,000
Subtotal	$ 10,830,000	$ 8,970,000	$ (325,000)	$ 8,645,000
TOTAL ADDL	$ 10,830,000	$ 8,970,000	$ (325,000)	$ 8,645,000
TOTAL ALL BONDS	$ 2,020,186,855	$ 1,569,341,152	$ (28,780,016)	$ 1,540,241,136

Source: State Budget Agency

Debt Service Schedule - Obligations Payable From Possible State Appropriations

Table 8 lists, by issuing agency, all principal and interest payments payable from possible State appropriations (not including debt that has been defeased) that are due in State Fiscal Years 2002-2005 and those scheduled thereafter until the bonds are retired.

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Table 8
Scheduled Principal and Interest Payments
Payable From Possible State Appropriations

Issuer/Series	FY 02	FY 03	FY 04	FY 05	Thereafter
State Office Building					
Government Center Parking					
Series 1990A	1,948,050	1,948,050	1,948,050	1,948,050	16,713,675
Series 1993A	3,691,946	3,689,389	3,689,981	3,683,284	30,502,183
Subtotal	5,639,996	5,637,439	5,638,031	5,631,334	47,215,858
Government Center North					
Series 1990B	6,041,880	6,041,880	6,041,880	6,041,880	51,841,680
Series 1993B	8,611,016	8,603,809	8,597,976	8,592,396	93,921,911
Subtotal	14,652,896	14,645,689	14,639,856	14,634,276	145,763,591
Government Center South					
Series 1990C	1,317,090	1,317,090	1,317,090	1,317,090	11,312,155
Series 1990D	3,705,990	3,705,990	3,705,990	3,705,990	69,252,595
Series 1993C	875,280	875,280	878,780	875,738	9,575,792
Series 2000B(1)	3,265,500	8,799,000	8,686,500	8,461,500	28,168,500
Subtotal	9,163,860	14,697,360	14,588,360	14,360,318	118,309,042
Correctional Facilities					
Series 1995A	3,326,769	3,320,028	3,321,861	3,322,248	86,586,863
Series 1995B	3,860,058	3,858,843	3,853,508	3,853,695	61,080,961
Series 1998A	6,903,551	8,574,151	8,572,990	8,560,298	102,146,062
Series 1999A	7,867,213	7,870,431	7,869,119	7,857,575	116,997,943
Series 2000A(1)	4,200,000	4,104,000	4,102,500	4,000,500	57,285,000
Subtotal	26,157,591	27,727,453	27,719,978	27,594,316	424,096,829
TOTAL SOBC	55,614,343	62,707,941	62,586,225	62,220,244	735,385,320
Transportation Finance					
Highway Revenue Bonds					
Series 1990A	6,150,288	6,150,288	6,150,288	6,150,288	50,200,773
Series 1992A	4,800,445	2,399,380	2,399,380	2,399,380	56,309,750
Series 1993A	13,845,448	13,853,698	13,848,263	13,858,773	202,992,686
Series 1996B	1,592,080	3,989,010	3,989,708	3,981,450	19,746,375
Series 1998A	12,111,765	12,098,890	12,108,846	12,088,328	232,873,214
Series 2000A	14,766,551	17,210,301	17,097,176	16,982,801	506,982,084
Subtotal	53,266,577	55,701,567	55,593,661	55,461,020	1,069,104,882
Airport Facilities Bonds					
Series 1992A	8,742,756	9,064,853	9,385,525	9,704,613	36,225,912
Series 1995A	2,376,240	2,420,893	2,469,868	2,512,723	33,073,276
Series 1996A	8,204,983	8,216,608	8,219,933	8,220,583	181,406,608
Subtotal	19,323,979	19,702,354	20,075,326	20,437,919	250,705,796
Aviation Technology Bonds					
Series 1992A	955,375	955,945	955,000	957,500	12,444,575
Subtotal	955,375	955,945	955,000	957,500	12,444,575
TOTAL ITFA	73,545,931	76,359,866	76,623,987	76,856,439	1,332,255,253
Recreational Development Commission					
Series 1994	1,380,070	1,419,395	1,460,203	1,492,435	26,725,326
Series 1997	526,043	526,030	525,333	523,869	7,263,365
Subtotal	1,906,113	1,945,425	1,985,536	2,016,304	33,988,691
TOTAL IRDC	1,906,113	1,945,425	1,985,536	2,016,304	33,988,691
Animal Disease & Diagnostic Laboratory					
Series 1998B	1,040,638	1,042,894	1,043,475	1,042,434	6,779,669
Subtotal	1,040,638	1,042,894	1,043,475	1,042,434	6,779,669
TOTAL ADDL	1,040,638	1,042,894	1,043,475	1,042,434	6,779,669
TOTAL BONDS	132,107,025	142,056,126	142,239,223	142,135,421	2,108,408,933

Note: Excludes principal and interest on refunded bonds.
(1) Debt service on variable rate debt is determined by actual rates through January 1, 2001 and the interest rate cap of 6% for remaining years.

Source: State Budget Agency

Debt Ratios

Historically, Indiana's debt burden has remained well below the national average and compares favorably with its regional peers. At $253, the State's net tax-supported debt per capita ranks in the bottom quintile, approximately 41st among the states. In April 2001, the median per capita debt for all the states was about $541 and the mean was $820. At 1.0%, Indiana has the lowest reported debt as a percent of personal income in the region and ranks approximately 42nd among all the states. In April 2001, the median percentage for all the states was about 2.1% and the mean was about 3%. Even with the issuance of new debt authorized by the General Assembly, the State expects to retain its low ranking among the states for net tax-supported debt. Governor O'Bannon has directed the creation of a comprehensive debt management plan to help insure that debt will continue to be issued and managed in a prudent manner. The ratios of outstanding debt subject to possible state appropriation to population and personal income for the past eight years are reflected in the Table 9 shown below.

Table 9
Ratios of Outstanding Debt Subject to Possible Appropriation to Population and Personal Income

Fiscal Year	Population	Personal Income[1]	Outstanding Debt Subject to Appropriation	Debt/Capita	Debt/Income
1993	5,700,243	$112,701	$ 1,001,051,854	$175	0.9%
1994	5,741,540	119,665	1,030,787,646	179	0.9
1995	5,787,839	125,804	1,036,962,646	179	0.8
1996	5,828,090	131,906	1,119,537,646	192	0.8
1997	5,864,105	138,415	1,116,717,640	190	0.8
1998	5,907,617	141,650	1,240,092,643	210	0.9
1999	5,942,901	146,900	1,228,372,647	207	0.8
2000	6,080,485[2]	164,238[3]	1,540,241,136[4]	253	1.0

(1) Personal Income is expressed in millions of dollars.
(2) 2000 Census
(3) 2000 Annual Average
(4) Debt outstanding on July 1, 2001

Source: United States Bureau of Census for population (release dated December 29, 2000), United States Department of Commerce, Bureau of Economic Analysis for personal income; and State Budget Agency for outstanding debt.

Authorized but Unissued Debt

The 1997 General Assembly authorized the State Office Building Commission to issue additional bonds to finance: (1) a special needs facility to be converted from an existing State mental hospital near New Castle, Indiana (construction has commenced on the New Castle Correctional Facility and it is expected to be available for use and occupancy in late 2001); and (2) a new State Museum in Indianapolis. (Construction has commenced on the Museum. It is expected to be available for use and occupancy in the Summer of 2002.) The Commission is providing short-term, or construction, financing for these facilities through issuance and sale of "Hoosier Notes—a tax-exempt commercial paper program." Initially, $100.0 million aggregate principal amount of Hoosier Notes were authorized to be issued by the Commission, beginning in February 1998. The authorization was subsequently increased to $150.0 million in January 1999, to $200 million in January 2001 and to $250 million in March 2001. As of July 10, 2001, $245.5 million of Hoosier Notes were outstanding. Since inception, the weighted average coupon for the program has been 3.586%.

The Commission refinanced (1) $85.7 million of the Hoosier Notes used to finance construction of Phase I of the Miami Correctional Center through issuance and sale of its Facilities Revenue Bonds, Series 1999A in July 1999, and (2) $40.45 million of Hoosier Notes used to finance construction of the Pendleton Juvenile Correctional

Facility through the issuance and sale of its Facilities Revenue Bonds, Series 2000A in June, 2000. The type, amount and timing of any additional bonds to refinance additional amounts of Hoosier Notes are subject to a number of conditions that cannot be predicted at present, including architectural and engineering work, the level of investment rates, conditions in the credit markets, costs and progress of construction and the financial condition of the State.

The 1999 General Assembly authorized the Commission to issue additional bonds to finance construction of Phase II of the Miami Correctional Facility and a replacement mental health facility in Evansville, Indiana. As of the date of this Official Statement, Phase II of the Miami Correctional Facility has been certified as substantially complete and available for use and occupancy. The Commission is in the initial stages of construction of the Evansville facility and anticipates completion in the fourth quarter of 2002. The Commission is also providing short-term, or construction, financing for these facilities through issuance and sale of Hoosier Notes.

The 2001 General Assembly authorized the Commission to issue bonds to finance three (3) regional health centers. The Commission is in the initial stages of planning for such facilities and has not yet established a construction time line. An appropriation was made in the approximate amount of $26,000,000 which is available to either make lease rental payments on such facilities when complete or to fund construction of such facilities.

In 1997, the General Assembly authorized the TFA to issue bonds to finance additional State highway construction projects. The TFA issued the first series of bonds in the principal amount of $175,360,000 on July 9, 1998, and a second series in the principal amount of $269,535,000 on November 29, 2000. Beginning in 2002, the TFA is expected to issue additional bonds in the aggregate principal amount of approximately $300 million to finance projects designed to increase the capacity of State highways.

Contingent Obligations

Certain State entities, including the Indiana Department of Transportation, Indiana Bond Bank, Indiana Recreational Development Commission and Indiana Development Finance Authority, have entered into lease agreements or issued obligations that, in certain circumstances, may include payment of State general funds. Such payments, if needed, are not mandatory and no one may compel the General Assembly to appropriate moneys to make them. The leases and other obligations of such entities do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Transportation Finance Authority - Toll Road Financing. The TFA and its predecessors have issued revenue bonds ("Toll Road Bonds") to finance and refinance the construction and improvement of the 156-mile East-West toll road (the "Toll Road") in northern Indiana, which links the Chicago Skyway and the Ohio Turnpike. To see a listing by bond series of the indebtedness of the TFA for Toll Road Financing, see "STATE INDEBTEDNESS—Debt Statement—Contingent Obligations."

The Indiana Department of Transportation has entered into a lease agreement for the Toll Road (the "Toll Road Lease") with the TFA. The Toll Road Lease is automatically renewable every two years unless terminated by written notice of one party to the other not less than six months prior to the end of a term. The TFA may also terminate the Toll Road Lease at any time upon 15 days' written notice if, in the judgment of the TFA, the Department of Transportation is not complying with the Toll Road Lease.

Pursuant to the Toll Road Lease, the operating budget of the Toll Road is controlled by the Department of Transportation, and the Department is obligated to make all necessary repairs, renewals, replacements and improvements to the Toll Road out of tolls and other revenues collected by the Department and deposited with the trustee under the Toll Road Lease. The Department is further obligated to fix and collect tolls to meet the requirements of the Toll Road Lease: (a) operating expenses; (b) rent to the TFA (for payment of debt service on Toll Road Bonds); and (c) expenses of major repairs, improvements and equipment. The base rent is subject to increase if debt service increases as a result of the issuance of additional Toll Road Bonds. Any excess revenues collected by the Department are payable to the TFA as additional rent.

In the event Toll Road revenues are insufficient in any year to meet the requirements of the Toll Road Lease, the Department of Transportation is obligated under the Toll Road Lease to take steps to remedy the insufficiency, including increasing toll rates and reducing operating expenses. If such measures are inadequate, the Department is required, within 30 days, to report the amount of the insufficiency to, and seek the approval of, the State Budget Agency for a request to the General Assembly for an appropriation to the extent of such insufficiency. To date, no request for an appropriation for payments or other requirements under the Toll Road Lease has been made. Under the Toll Road Lease, the Department is unconditionally obligated to pay the rent during each term from legally available funds, but is not obligated to pay rent for any subsequent term unless the Toll Road Lease is renewed and extended. The Department's obligation to pay rent is not limited to Toll Road Lease revenues but, to the extent that the Department can legally obligate itself to do so, extends to other funds of, or obtainable by, the Department and legally available from time to time for expenditures in connection with the operation of the Toll Road. Nothing in the Toll Road Lease or in Indiana Code 8-9.5-8 or 8-15 creates a debt or an obligation that requires the State to make any appropriations to or for the use of the TFA or the Department.

For a description of other powers and responsibilities of the TFA, including its authority to issue other debt, see "STATE INDEBTEDNESS—Obligations Payable from Possible State Appropriations—Transportation Finance Authority-Highway Financing" and "Indiana Transportation Finance Authority-Aviation Financing."

Indiana Bond Bank. The Indiana Bond Bank (the "Bond Bank"), a body corporate and politic, was created in 1984 pursuant to Indiana Code 5-1.5. The Bond Bank is not a State agency and is separate from the State in both its corporate and sovereign capacity. The Bond Bank has no taxing power. The purpose of the Bond Bank is to buy and sell securities and to make loans to political subdivisions of the State and other qualified entities as defined in Indiana Code 5-1.5-1-8. The Bond Bank is empowered to issue bonds or notes which are payable solely from revenues and funds that are specifically allocated for such purpose. Pursuant to Indiana Code 5-1.5-5, to assure maintenance of a debt service reserve in any reserve fund required for Bond Bank bonds or notes, the General Assembly may, but is under no obligation to, appropriate to the Bond Bank for deposit in one or more of such funds the sum that is necessary to restore that fund to its required debt service reserve. If at the end of any Fiscal Year the amount in any reserve fund exceeds the required debt service reserve, any amount representing earnings or income received on account of any money appropriated to the reserve fund that exceeds the expenses of the Bond Bank for that year may be transferred to the General Fund.

Bonds issued by the Bond Bank do not constitute a debt, liability or loan of the credit of the State or any political subdivision thereof under the State constitution. Particular sources are designated for the payment of and security of bonds issued by the Bond Bank.

By statute, the total amount of bonds and notes which the Bond Bank may have outstanding at any one time (except bonds or notes issued to fund or refund bonds or notes) is currently limited by statute to $1,000.0 million plus (a) up to $200.0 million for certain qualified entities that operate as rural electric membership corporations or as corporations engaged in the generation and transmission of electric energy and (b) up to $30.0 million for certain qualified entities that operate as telephone cooperative corporations. However, the foregoing limitations do not apply to bonds or notes or other obligations not secured by a reserve fund that is subject to Indiana Code 5-1.5-5.

As of July 1, 2001, the Bond Bank had $1,375,626,793 in bonds and notes outstanding, including $173,025,000 in outstanding bonds that are eligible for reserve fund replacement, with an aggregate reserve fund requirement for such bonds of $45,754,501. To see a listing by bond series of the outstanding Bond Bank bonds that are eligible for reserve fund replacement see "STATE INDEBTEDNESS—Debt Statement-Contingent Obligations."

As of July 1, 2001, all borrowers from the Bond Bank were current in their payments and no appropriation has been requested or required to maintain the debt service reserve funds at their required levels; however, on January 1, 1999, the Town of Claypool, Indiana (a borrower of $328,000 aggregate principal amount of the Bond Bank's Special Program Pool, Series 1991F) failed to make payment of $21,546.75, which payment was then made by the Bond Bank from available monies and thereafter such borrowing was restructured and the payment delinquency cured.

Development Finance Authority. The Indiana Development Finance Authority (the "Development Finance Authority"), a body politic and corporate, was established in 1990 under Indiana Code 4-4-11 as successor to the Indiana Employment Development Commission, Indiana Agricultural Development Corporation and Indiana Export

Finance Authority. The Development Finance Authority is not a State agency, but an independent instrumentality of the State exercising essential public functions. The public purposes of the Development Finance Authority are to: (a) promote opportunities for gainful employment and business opportunities by the promotion and development of industrial development projects, rural development projects, mining operations, international exports and agricultural operations; (b) promote educational enrichment (including cultural, intellectual, scientific or artistic opportunities) by the promotion and development of educational facility projects; (c) promote affordable farm credit and agricultural loan financing for farming and agricultural enterprises; (d) prevent and remediate environmental pollution by the promotion and development of industrial development projects; and (e) promote affordable childcare financing.

The Development Finance Authority is permitted by law to issue conduit and certain other types of revenue bonds to finance projects that serve these public purposes. Except as described below, the Development Finance Authority's revenue bonds are payable solely from revenues of the Development Finance Authority specifically pledged thereto. The bonds are not in any respect a general obligation of the Development Finance Authority or the State, nor are they payable in any manner from revenues raised by taxation. The Development Finance Authority has no power to levy taxes.

Pursuant to this authority, the Development Finance Authority has issued numerous revenue bonds. Except as described below, the revenue bonds are not payable from State appropriations. The Development Finance Authority issued on May 25, 1995, $21,400,000 aggregate principal amount of its Taxable Economic Development Revenue Bonds, Series 1995 (Steel Dynamics, Inc. Project) (the "Steel Dynamics Bonds"), secured in part by a debt service reserve fund established exclusively for the Steel Dynamics Bonds. As of July 1, 2001, $17,600,000 aggregate principal amount of the Steel Dynamics Bonds remain outstanding. In addition, the Development Finance Authority issued $33,100,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (Qualitech Steel Corporation Project) (the "Qualitech Bonds"), secured in part by a debt service reserve fund established exclusively for the Qualitech Bonds, $28,700,000 of which revenue bonds remain outstanding as of July 1, 2001. Finally, the Development Finance Authority issued $13,800,000 aggregate principal amount of its Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1998 (Heartland Steel, Inc. Project) (the "Heartland Steel Bonds") secured in part by a debt service reserve fund established exclusively for the Heartland Steel Bonds, $11,900,000 of which revenue bonds remain outstanding as of July 1, 2001. To see a listing by bond series of the outstanding Development Finance Authority bonds that are eligible for reserve fund replacement see Table 10 "Schedule of Long Term Debt-Contingent Obligations" shown below.

On March 22, 1999, Qualitech Steel Corporation, the corporation whose revenues are the primary source of repayment for the Qualitech Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Qualitech Bonds remain current. On or about August 26, 1999, substantially all of Qualitech Steel Corporation's assets were sold with court approval to designees of Qualitech's pre-petition secured lenders. As of January 1, 2001, the bankruptcy proceedings were not concluded, however, it is likely that, at some point in the future, the debt service reserve fund established for the Qualitech Bonds will not be fully funded and the Development Finance Authority will be required to seek an appropriation from the General Assembly to replenish such debt service reserve fund or to reimburse Bank One, Indiana, N.A. for unreimbursed draws under a letter of credit it issued to secure payment of the Qualitech Bonds. Presently the debt service reserve fund remains fully funded and the biennial budget bill includes sufficient funds to pay the Qualitech bond payments through the '01-'03 biennium. On or about January 31, 2001, Qualitech ceased operations and permanently laid off the majority of its employees.

On January 24, 2001, Heartland Steel Corporation, the corporation whose revenues are the primary source of repayment for the Heartland Steel Bonds, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. The Heartland Steel Bonds remain current and the biennial budget bill provides $1,000,000 in additional funding to supplement bond payments for the Heartland Steel Bonds.

The Development Finance Authority has contractually agreed that, if, after an unreimbursed transfer from the debt service reserve fund for the Steel Dynamics Bonds, the Qualitech Bonds or the Heartland Steel Bonds, as applicable, such debt service reserve fund is not fully funded, the Development Finance Authority will seek an appropriation from the General Assembly to replenish such debt service reserve fund. However, the General Assembly is under no obligation to make any appropriation to replenish any such debt service reserve fund.

Debt Statement - Contingent Obligations

Table 10 lists the long term debt classified as contingent obligations that was outstanding on July 1, 2001. Debt classified as a contingent obligation is debt for which the State has agreed to replenish a debt service reserve fund or seek an appropriation from the General Assembly to provide funds to meet certain obligations. See "STATE INDEBTEDNESS—Contingent Obligations."

Table 10
Schedule of Long Term Debt
Contingent Obligations
(as of July 1, 2001)

Issuer/Series	Original Par Amount	Ending Balance 1/01/01	(Redeemed)/ Issued	Ending Balance 7/01/01
Transportation Finance Authority				
Toll Road Bonds				
Series 1985	$ 256,970,000	$ 26,200,000	$ -	$ 26,200,000
Series 1987	184,745,000	46,295,000	(1,955,000)	44,340,000
Series 1993	76,075,000	47,770,000	(8,595,000)	39,175,000
Series 1996	134,795,000	132,710,000	(620,000)	132,090,000
Subtotal	$ 652,585,000	$ 252,975,000	$ (11,170,000)	$ 241,805,000
Indiana Bond Bank				
Special Program Pool				
Series 1992A	$ 21,000,000	$ 16,045,000	$ (805,000)	$ 15,240,000
Series 1993A	7,975,000	6,705,000	(265,000)	6,440,000
Series 1993B	14,915,000	13,805,000	(750,000)	13,055,000
Series 1994B	8,475,000	7,170,000	(325,000)	6,845,000
Series 1995A	4,540,000	4,155,000	(300,000)	3,855,000
Series 1995B	13,280,000	12,080,000	(340,000)	11,740,000
Series 1997A	6,295,000	6,020,000	(110,000)	5,910,000
Series 1997B	22,855,000	22,855,000	(740,000)	22,115,000
Series 1997C	5,010,000	5,010,000	0	5,010,000
Series 1998A	6,485,000	6,485,000	(215,000)	6,270,000
Series 2000A	31,495,000	31,495,000	0	31,495,000
Series 2000A	32,860,000	27,860,000	(3,650,000)	24,210,000
Series 2001A	20,840,000	20,840,000	0	20,840,000
Subtotal	$ 196,025,000	$ 180,525,000	$ (7,500,000)	$ 173,025,000
Indiana Development Finance Authority				
Qualitech Steel	$ 33,100,000	$ 28,700,000	$ 0	$ 28,700,000
Steel Dynamics	21,400,000	17,600,000	0	17,600,000
Heartland Steel	13,800,000	12,300,000	(400,000)	11,900,000
Subtotal	$ 68,300,000	$ 58,600,000	$ (400,000)	$ 58,200,000
TOTAL – ALL BONDS	$ 916,910,000	$ 492,100,000	$ (19,070,000)	$ 473,030,000

Source: State Budget Agency

Other Entities Issuing Debt

The following entities, although created or designated by the State, are authorities, instrumentalities, commissions, separate bodies corporate and politic, or not-for-profit corporations separate from the State. The entities may incur debt while exercising essential governmental or public functions. Any debt incurred by the entities is secured only by specific revenues and sources pledged at the time the debt is incurred and is neither direct nor indirect debt of the State. The debts do not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

Entity	Statute	Purpose of Debt Issuance
Board for Depositories	I.C. 5-13-12 Recodified 1987	Provide guarantee for industrial development obligation or credit enhancement for Indiana enterprises
Indiana Educational Facilities Authority	I.C. 20-1263 Established 1979	Provide funds for projects to be leased to private institutions of higher learning
Indiana Health Facility Financing Authority [1]	I.C. 5-1-16 Established 1983	Provide health facilities with means for financing equipment and property acquisitions
Indiana Housing Finance Authority [2]	I.C. 5-20-1 Established 1978	Provide funds for construction or mortgage loans for federally assisted multi-family or for low and moderate income residential housing
Indiana Political Subdivision Risk Management Commission	I.C. 27-1-29 Established 1986	Provide funds to aid political subdivisions protection against liabilities
Indiana Port Commission	I.C. 8-10-1 Established 1961	Provide funds to construct, maintain and operate public ports on Lake Michigan or Ohio or Wabash Rivers
Indiana Secondary Market for Secondary Loans, Inc.[3]	I.C. 20-12-21.2 Authorized 1980	Provide funds for a secondary market for education loans
Intelenet Commission	I.C. 5-21-1 Established 1986	Provide funds for a State-wide integrated telecommunications network
Indiana State Fair Commission	I.C. 15-1.5-1 Established 1990	Provide funds for construction, repair and refurbishing of State fairgrounds
Indiana White River State Park Development Commission	I.C. 14-3-1 Established 1979	Provide funds for establishment and development of park, exposition, educational, athletic and recreational projects on the White River in Marion County

(1) Originally the Indiana Hospital Equipment Financing Authority.
(2) Authorized to issue bonds, similar to the Indiana Bond Bank, that would be eligible for General Assembly appropriations to replenish the debt service reserve funds. The Indiana Housing Finance Authority has not issued and does not currently expect to issue any such bonds.
(3) A not-for-profit corporation authorized by the General Assembly.

STATE RETIREMENT SYSTEMS

There are four major State retirement systems: the Public Employees' Retirement Fund, the Indiana State Teachers' Retirement Fund, the State Judges' Retirement System and the State Police Fund. In addition, the State maintains and appropriates moneys to several other retirement plans. Under Indiana law, each board administering a retirement system is required to periodically make an actuarial investigation into the mortality, service and compensation or salary experience of the members of the system and their beneficiaries and make a valuation of the assets and liabilities of the retirement benefits in any year in which the retirement fund law is amended in any manner which affects the benefits payable. See "Exhibit B-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000—Employee Retirement Systems and Plans."

In 2000, the Indiana General Assembly restructured certain governance provisions for the Public Employees' Retirement Fund and the Teachers' Retirement Fund. Each Fund is now a separate body corporate politic. The legislation was designed to give the Funds the resources necessary to most efficiently and effectively implement investment strategies and administer benefits.

Public Employees' Retirement Fund

The Public Employees' Retirement Fund ("PERF") has been in existence since 1945 to provide retirement, disability and survivor benefits for most State and local government employees. With assets of more than $8,559.1 million on June 30, 2000, PERF is the State's largest pension fund and has no unfunded liability. PERF has management responsibility for total assets of $11,502.7 million, which includes pension assets of local government units, the Judges' Retirement System, Legislators' Retirement System, Prosecutors' Retirement System, municipal police and fire units and State conservation and excise officials. On June 30, 2000, there were 204,286 active and retired members participating in PERF from State and local government.

State employees constitute approximately 36% of the non-retired PERF membership; the remainder of the membership is composed of employees of other participating political subdivisions. The State is financially responsible for making contributions for State employee members only. Funding for PERF is included as part of the expenditures for fringe benefits by each State agency.

All State employees and all employees of participating political subdivisions in covered positions, including elected and appointed officials, are required to join PERF upon employment. The PERF benefit consists of two parts: (a) a pension formula benefit based upon years of service and final average salary and (b) an additional benefit based upon the member's annuity savings account balance, derived from employee contributions. The employee contribution rate is defined by law as 3.0% of each employee's salary. Effective July 1, 1986, the State "picked up" and pays the employee contributions for State employees to PERF as part of a wage adjustment.

Eligibility for retirement benefits is determined by age and creditable service. An employee is eligible for normal retirement at age 65 if he or she has ten or more years of creditable service under PERF. An employee may qualify for early retirement with a reduced pension if he or she is between the ages of 50 and 65 and has 15 or more years of creditable service. An employee may qualify for early retirement with full benefits at age 60 with 15 or more years of creditable service or at age 55 with the employee's age plus years of creditable service equaling 85 or more (the "Rule of 85"). Benefit determination is based on the average of the five highest annual earnings, years of service and age at retirement and the specific retirement option selected by each member.

PERF includes benefits for a member who becomes disabled while receiving pay in a PERF-covered position if the member (a) has five or more years of creditable service under PERF and (b) qualifies for Social Security disability benefits. The benefits will be computed using only the years of creditable service worked to the date of disability with no reduction for early retirement.

If a member who has 15 or more years of creditable service dies in service, his or her spouse or dependent beneficiary may be entitled to survivor benefits. If a retired member dies, the designated beneficiary may receive benefits, depending on the option selected by that member.

A member who terminates employment prior to eligibility for retirement or disability benefits is entitled to the return of his or her contributions, plus interest. A member who terminates employment prior to eligibility for retirement or disability benefits, but with ten or more years of credited service, may also elect to receive a deferred vested benefit instead of a refund.

Contributions are made to PERF by the State and local units, paying normal cost and amortizing the unfunded accrued liability of each unit during periods established pursuant to statute. Contribution rates are set by the PERF Board of Trustees based on annual actuarial valuations**.** For 1999, 2000, and 2001 the State contribution rate was set at 5%, the lowest rate in over 10 years.

Table 11
Public Employees' Retirement Fund
History of Contribution Rates

Valuation Date	State Contribution Rate
July 1, 2000	5.0%
July 1, 1999	5.0%
July 1, 1998	5.7%
July 1, 1997	6.6%
July 1, 1996*	6.6%
July 1, 1995*	6.3%
July 1, 1994	5.6%
July 1, 1993	6.2%
June 30, 1992	6.6%
June 30, 1991	7.0%
June 30, 1990	7.3%
June 30, 1989	7.8%

*These contribution rates reflect the normal retirement date as changed by statute to the "Rule of 85" and reflect changes in actuarial assumptions.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

As of July 1, 2000, the State-related portion of the PERF plan was actually overfunded by $258.9 million. The better-than-expected funded status of the plan can be attributed to greater than expected investment gains. The plan has achieved this overfunded status even though it incorporates conservative actuarial assumptions into the valuation process.

Table 12
PERF Actuarial Assumptions

- 7.25% Investment Return
- 5% Salary Increases
- 2% Retiree Cost-of-Living Benefit Increases
- 1983 GAM Mortality Tables
- Retirement rates based on PERF Experience Study 1991-1994
- Disability rates based on PERF Experience Study 1991-1994
- Turnover by age and service based on PERF Experience Study 1991-1994

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, July 1, 2000.

Table 13 summarizes the results of the actuarial valuations of the State-related portion of PERF on June 30, 1999 and June 30, 2000.

Table 13
Indiana State Public Employees' Retirement Fund

	June 30, 1999	June 30, 2000
Normal Cost	$ 73,931,188	$ 80,217,996
Accrued Liability (Non-retired)(1)	1,583,485,563	1,701,091,436
Unfunded (Overfunded) Accrued Liability (Non-retired)(1)	(245,098,880)	(258,926,582)
Actuarial Present Value of All Accumulated Plan Benefits	911,681,909	988,638,974
Present Value of Vested Benefits	760,263,989	831,616,226
Non-retired Participant Assets(2)	1,828,584,443	1,960,018,018

Notes: (1) There is no Unfunded Accrued Liability for retired members' benefits.
(2) Actuarial Value.

Source: Actuarial Valuation Report, Public Employees' Retirement Fund of Indiana, June 30, 1999 and June 30, 2000.

In November 1996, a referendum amending the State constitution to permit public pension funds to invest in equities was passed. In May 1997, after enactment of House Enrolled Act 1036, the Board of Trustees of PERF began shifting the asset allocation of its investment portfolio. The shifting was scheduled to take place over a projected three-year transition period to a target asset allocation of 60% equities and 40% fixed income securities. After an updated asset/liability study of the Plan in early 2000, the Board of Trustees approved a new target asset allocation of 55% domestic equities, 10% international equities, 32% fixed income securities and 3% real estate. It is expected that the new targeted asset allocation will produce a more diversified and higher yielding investment portfolio in the long run. As of June 30, 2000, approximately 60% of the employer reserves under PERF's control have been shifted to domestic equity investments.

State Teachers' Retirement Fund

The Indiana State Teachers' Retirement Fund ("TRF") pays retirement benefits to public school teachers who reach a specific age or meet other eligibility qualifications. On June 30, 2000, TRF had 110,748 active and retired participants. Members of TRF receive benefits similar to those received by PERF members as described above and are also subject to the "Rule of 85" for eligibility purposes.

Moneys to pay retirement benefits were provided from State appropriations and separate contributions by the teachers to an Annuity Savings Account. Until July 1, 1995, the State portion of benefits was funded on a "pay as you go" cash basis. As a result, there accumulated a substantial unfunded accrued liability in the "old plan" as shown in Table 14 below.

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Table 14
Indiana State Teachers' Retirement Fund

	June 30, 1999	
Accrued Liability	Old Plan	New Plan*
Retired	$ 3,659,118,423	$ 3,903,234
Non-retired	8,513,383,027	494,519,759
Total	12,172,501,450	498,422,993
Unfunded Accrued Liability		
Retired	$ 1,428,041,751	$ -
Non-retired	6,013,793,279	258,369,079
Total	$ 7,441,835,030	$ 258,369,079 **
	June 30, 2000	
Accrued Liability	Old Plan	New Plan*
Retired	$ 3,890,895,561	$ 8,679,114
Non-retired	8,518,379,657	697,111,111
Total	12,409,275,218	705,790,225
Unfunded Accrued Liability		
Retired	$ 1,380,424,751	$ -
Non-retired	5,818,961,181	337,632,726
Total	$ 7,199,385,932	$ 337,632,726 **

*The new plan is actuarially funded by local school districts.
**Total Unfunded Accrued Liability of the new plan is primarily attributable to the transfer of members (and their accrued liabilities) from the Pre-1995 Plan.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 1999 and June 30, 2000.

To aggressively address TRF's unfunded liability, the State:

1. Capped the growth of the benefit obligations by creating a new, actuarially sound plan for all teachers hired or transferred after July 1, 1995. The "new" plan is funded by local school districts on a current basis using a level percent of payroll approach.
2. Created a new Pension Stabilization Fund dedicated to limiting growth in future General Fund appropriations for the pre-July 1995 plan to no more than normal growth in General Fund revenues. The Pension Stabilization Fund has been funded through the following transfers and appropriations:

Amount	Source	Time	Frequency
$439.7 million	Pension reserves	1995-1997 Biennium	One-time
$250.0 million	General Fund appropriation	1995-1997 Biennium	One-time
$150.0 million	General Fund appropriation	1997-1999 Biennium	One-time
$250.0 million	General Fund appropriation	1999-2001 Biennium	One-time
$30.0 million	Gaming Revenue appropriation	Annually, beginning FY 1996	Ongoing

The Teachers' Retirement Fund reports that the balance in the Pension Stabilization Fund on March 31, 2001 was approximately $1.753 billion (unaudited) from all sources.

3. Changed the State constitution to allow investment in equities, thereby increasing earnings estimates for plan assets. In August 1997, TRF's trustees adopted a new asset allocation plan, establishing a long-term goal of

investing 52.0% of plan assets in equity investments. As of June 30, 2000, 46% of the Fund's employer controlled assets were invested in equities. The independent, non-partisan, Indiana Fiscal Policy Institute, estimated that investing in equities had resulted in an additional $648 million in earnings to the Plan as of December 31, 1999.

4. Adopted increased employer contribution rates for the new plan based on recommendations made by the Fund's actuaries in the June 30, 1999 Actuarial Valuation Report. At the November 30, 2000 TRF Board meeting, the trustees increased the employer contribution rate from 8.5% to 9% to address the growing unfunded accrued liability in the new plan. The trustees also established a 40 year "closed" amortization period for the new plan's unfunded actuarial accrued liability. The actuaries determined that the existence of an unfunded accrued liability in the new plan is primarily attributed to the transfer of members and their accrued liabilities from the old plan.

The substantial changes to the old and new plans were designed to limit the growth in the annual State General Fund appropriation necessary to meet current obligations of such plans. An independent analysis of the plans done in December 1999 by The Indiana Fiscal Policy Institute, reports that the growth rate for future General Fund appropriations has been reduced from a projected growth rate of 9% per year to 3.1% per year following the restructuring. Another example of how the changes are working is highlighted in Table 15, with the growth in the unfunded liability decreasing dramatically to less than 2% a year from a volatile range of 5% to over 20% prior to 1995, and finally in 2000 achieving an actual decrease.

Table 15
Growth of Unfunded Liability in Teachers' Retirement Fund Closed, Pre-1995 Plan

June 30	Computed Actuarial Accrued Liability	Valuation Assets ($ in Millions)	Unfunded Actuarial Accrued Liability (UAAL)	% Change from previous Year*
1975	$1.570	$ 312	$1.258	
1977	2.145	375	1.770	20.3%
1979	2.582	466	2.116	9.8%
1980	2.843	539	2.304	8.9%
1981	2.957	601	2.356	2.3%
1983	3.338	765	2.573	4.6%
1985	4.023	1.073	2.950	7.3%
1987	4.837	1.401	3.436	8.2%
1989	6.205	1.707	4.498	15.5%
1991	7.182	2.161	5.021	5.8%
1992	7.949	2.376	5.573	11.0%
1993	8.508	2.592	5.916	6.2%
1994	9.087	2.809	6.279	6.1%
1995	9.675	2.984	6.691	6.6%
1996	10.283	3.242	7.041	5.2%
1997	10.868	3.678	7.190	2.1%
1998	11.481	4.130	7.351	2.2%
1999	12.173	4.731	7.442	1.2%
2000	12.409	5.210	7.199	(3.3%)

*Where a valuation year is skipped, the percentage change is divided by two to approximate the change over a two-year period.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

The actuaries acknowledge that the assumptions used to calculate the unfunded liability are more conservative than many public pension plans. Because the liability is calculated using these various assumptions, any changes to those assumptions could substantially impact the amount of the unfunded liability

Table 16
TRF Actuarial Assumptions

- 7.5% Investment Return
- 5.5% Salary Increases plus an additional Merit and/or Seniority increase ranging from 1.5% to 3% for those members with 5 to 40 years of service.
- 1983 GAM Mortality Tables
- Retirement rates based on TRF Experience Study 1991-1996*
- Disability rates based on TRF Experience Study 1991-1996*
- Turnover by age and service based on TRF Experience Study 1991-1996*

*A new TRF Experience Study must be completed every 5 years and is due to be completed in 2001.

Source: Actuarial Valuation Report, Teachers' Retirement Fund, June 30, 2000.

Indiana Judges' Retirement System

The Indiana Judges' Retirement System ("JRS") consists of two benefit plans that pay pensions, disability benefits and survivor benefits to judges. Benefits under each plan include retirement, disability and survivor provisions, all of which are tied to salaries and years of service.

Moneys to pay benefits are derived primarily from an appropriation from the State's General Fund, from court fees and from contributions by the judges equal to 6.0% of their salaries. JRS has historically not been funded by the State on an actuarial basis.

Table 17 summarizes the results of the actuarial valuation of JRS on July 1, 1999, and July 1, 2000.

Table 17
Indiana Judges' Retirement System

	July 1, 1999	July 1, 2000
Normal Cost(1)	$ 4,894,302	$ 4,627,745
Accrued Liability	176,301,145	182,447,802
Unfunded Accrued Liability	85,228,571	78,715,197
Valuation Assets(2)	$ 91,072,574	$ 103,732,605
Number of Members		
Active and Inactive	341	336
Terminated and Vested	18	17
Retired	221	228
Total	580	581

(1) Although normal cost is calculated by the actuaries, JRS is not funded on an actuarial basis. This amount represents the gross normal cost. Anticipated employee contributions of approximately $1.9 million in 1999 and $1.8 million in 2000 leave net employer normal cost of approximately $4.6 million in 2000.
(2) Actuarial Value.

Source: Actuarial Valuation, State of Indiana Judges' Retirement System, July 1, 1999 and 2000.

State Police Pension Trust

The State Police Pension Trust consists of two structures that provide retirement benefits to State police officers. The State makes contributions to the State Police Pension Trust from appropriations of General Fund and Motor Vehicle Highway Fund moneys. At present, members contribute and may borrow funds in an amount up to their contribution, subject to State Police Pension Advisory Board policies. Retirement benefits may not exceed one-half of either the member's highest salary in 36 consecutive months or a third year trooper's pay (depending upon the structure in which the member belongs), plus additions tied to years of service. Survivor and disability benefits may not exceed the basic pension amount.

The State Police Pension Trust is funded on an actuarial basis. The State Treasurer is custodian for such trust. Certain financial information about the State Police Pension Trust is also included in Exhibit B-1, General Purpose Financial Statements of the State of Indiana for the Fiscal Year Ended June 30, 2000.

Other State Plans

The State appropriates moneys to several other retirement plans.

The State maintains an Excise Police and Conservation Enforcement Officers' Retirement Plan. According to the actuarial valuation of the plan, as of July 1, 2000, the plan had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of $1,717,593 and an unfunded actuarial liability of $11,903,897.

The PERF Board of Trustees administers a local police officers' and firefighters' pension and disability fund for local police officers and firefighters hired after April 30, 1977. Benefits for the members of this plan have been funded on an actuarial basis through contributions from cities and towns and from plan members.

The PERF Board of Trustees also administers a pension relief fund for those local police officers and firefighters hired before May 1, 1977. Benefits for the members of this plan have been funded on a "pay-as-you-go" basis, under which benefits are paid from current revenues provided by cities and towns and by plan members' contributions. Cities and towns receive pension relief funds from the State to reimburse them for a portion of benefit expenditures. To provide such pension relief, the State has dedicated a portion of the State's cigarette tax revenue, liquor tax revenue and certain surplus Hoosier Lottery and gaming revenues. In addition to those funding sources, the State authorized additional appropriations of $50.0 million during 1996 and $25.0 million each year of the 1997-1999 biennial budget. In 1999, the State dedicated another $20 million per year from the lottery proceeds (beyond the existing $10 million per year) to the pension relief fund. For the 2000 Calendar Year, $76.652 million was expended from the State's pension relief fund, and on December 31, 1999, the State's pension relief fund had a balance of $498.811million.

In 1989, the General Assembly established a legislators' retirement system consisting of a defined benefit plan and a defined contribution plan. Each of the plans is to be administered by the PERF Board. According to the actuarial valuation of the legislators' defined benefit plan, as of July 1, 2000, the plan had a total annual cost of $177,559, a cost per eligible active participant of $1,492 and an unfunded actuarial liability of $896,370.

The 1989 General Assembly also established a prosecuting attorneys' retirement fund, which is administered by the PERF Board. According to the actuarial valuation of the prosecuting attorneys' retirement fund, as of July 1, 2000, the fund had a total annual cost (net of employee contributions and including amortization of the unfunded actuarial liability) of $375,145 and an unfunded actuarial liability of $4,161,682.

Local Plans

Approximately 200 additional local governmental pension funds in the State do not receive direct contributions from the State. Although the State has set certain standards for some local pension funds, localities and members are solely responsible for contributions to the funds.

ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Indiana's economy continues to grow in size and diversity, despite the recent economic slowdown. With an estimated 1999 Gross State Product of more than $182.2 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown faster than the nation during the 1990's, with a Gross State Product growth rate of 64.5% compared to 63.1% for the U.S. From 1990 to 1999, Indiana's contribution to the national Gross Domestic Product increased by $71.4 billion, rising from 1.9% to 2.0% of total output. The State ranks in the top five nationally for producing items as diverse as pharmaceuticals, surgical supplies, aircraft engines and parts, compact discs, musical instruments, truck and bus bodies, electronic resistors and steel.

In 2000, Indiana ranked 32nd nationally with per capita income of $27,011, or 91.% of the U.S. average. This represents an improvement from 1990, when Indiana's per capita income was 90% of the national average. Since 1990, Indiana's annual average growth rate for per capita income of 3.96% exceeded the national average of 3.85%. During the first part of the decade, median income fell in Indiana and across the U.S. However, since 1994 Indiana's household income has risen sharply, growing 13.7% faster than the nation's. In 1999, Indiana's median household income of $40,769 exceeded the national average of $40,280.

Between 1990 and 2000, Indiana experienced strong gains in non-farm employment, adding 488,400 net new jobs, for a growth rate of 19.4%. Since 1995, employment growth has slowed to an average of 1.7% annually, dropping below the national growth rate of 2.4%. This may be a reflection of tight labor markets as Indiana's unemployment rate has fallen significantly below the nation's, ranging from 68.9% to 82.1% of the U.S. average. In 2000, Indiana's average unemployment rate of 3.2 % was again below the national average of 4.0%. Recent employment data, however, suggests a loosening of the labor market consistent with the rest of the country.

From 1990 to 2000, Indiana has witnessed a significant shift in the distribution of employment between sectors. Employment in the service sector increased by 43%, followed by a 32.4% gain in construction and a 18.3% increase in wholesale and retail trade. During this period, the number of manufacturing jobs also increased by 7.8%. However, manufacturing jobs declined from a 28.8% share of total non-farm employment to a 22.8% share. The service sector increased from 20.8% to 25.0%, and is now the largest single sector of employment in Indiana. The diversity of the workforce is reflected in the fact that Indiana's top five employment sectors comprise just 28.8% of the workforce, with health services being the largest segment of private employment.

Indiana is the 15th largest exporting state in the nation. Since 1990, exports in Indiana have outperformed the nation, increasing by over 160%, compared to 99% for the nation as a whole. In 2000, Indiana experienced export growth in excess of 18% while exports for the United States increased by about 13%. A large increase in exports to Mexico and a return of exports to Asian markets has contributed to Indiana's 2000 export increase. In 2000, Indiana experienced another record-breaking year with the State's exports reaching an all time high of $16.5 billion.

Indiana benefits from proximity to major markets and population centers — both national and international. Through Indiana's three ports, businesses can access markets and population centers in the north, through Lake Michigan and the Great Lakes-St. Lawrence Seaway; and to the south, through the Ohio and Mississippi rivers. With 11,300 miles of State highways and 1,171 miles of interstate highways, Indiana has more interstate highways passing through it than any other state. Indiana is within a day's drive of two-thirds of the population of the United States.

The cost of living in Indiana is relatively low. The cost of living index for all of Indiana's major cities has consistently been below the national average of 100. Indiana ranks favorably among the states in housing affordability and percent of home ownership. Electricity costs are comparatively low in Indiana. According to the U.S. Energy Information Administration, average electric utility rates during 2000 were 14.6% lower than the national average for all industrial customers while residential energy bills were 17.2% lower than the national average.

Table 18 compares changes in employment, population and personal income between Indiana and the United States since 1950.

Table 18						
Summary Comparison: Indiana and the U.S.						
	1950	**1960**	**1970**	**1980**	**1990**	**2000**
Employment (1)						
Indiana	1,272	1,431	1,849	2,130	2,522	3,010
% Change	--	12.5%	29.2%	15.2%	18.4%	19.4%
U.S.	45,197	54,189	70,880	90,406	109,419	128,615
% Change	--	19.9%	30.8%	27.6%	21.0%	17.5%
Population (2)						
Indiana	3,934	4,662	5,195	5,490	5,544	6,080
% Change	--	18.5%	11.4%	5.7%	1.0%	9.7%
U.S.	151,326	179,323	203,302	226,546	248,710	281,422
% Change	--	18.5%	13.4%	11.4%	9.8%	13.2%
Personal Income (3)						
Indiana	$1,510	$2,209	$3,810	$9,449	$17,625	$27,011
% Change	--	46.3%	72.5%	148.0%	86.5%	53.3%
U.S.	$1,492	$2,276	$4,095	$10,183	$19,584	$29,676
% Change	--	52.6%	79.9%	146.7%	92.3%	51.5%

(1) In thousands. Non-agricultural payroll employment only. See Table 25.
(2) In thousands.
(3) Growth measured by current dollars per capita.

Source: U.S Census Bureau; Bureau of Economic Analysis; and Bureau of Labor Statistics.

Population

Indiana is the 14th most populous state in the United States. After leveling off during the 1980s, the pace of Indiana's population growth has increased in recent years. Numbers from the 2000 Census place Indiana's population at just over 6 million people, an increase of 9.7% from the 1990 Census. Indiana's population increased not only in relative terms, but its population increase of 536,326 persons during the 90's, was the 18th largest population increase in absolute terms. During the decade, Indiana's rate of growth outpaced all other mid-western states by a significant margin.

Throughout the decade, Indiana has benefited from net in-migration; meaning, more people are entering the State than leaving it, reversing an out-migration trend that occurred in the 1980s. Of Indiana's neighboring states, only Kentucky has posted net positive population migration in each of the years 1991 through 1999.

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Table 19					
Net Population Migration (In thousands**)**					
Year	Indiana	Illinois	Michigan	Ohio	Kentucky
1991	11	-28	1	-4	3
1992	12	-7	9	7	19
1993	19	-12	-2	-2	24
1994	12	-18	2	-13	16
1995	16	-24	22	-13	16
1996	10	-26	27	-17	11
1997	6	-25	-6	-23	11
1998	4	-23	-13	-30	10
1999	4	-18	-3	-26	10
1990-99	111	-175	-99	-113	113

Source: U.S. Census Bureau. 1990-1999 total based on revised figures released in 2000.

The capital and largest city in the state is Indianapolis. Other major cities include Fort Wayne, Evansville, Gary and South Bend. Indiana has all or portions of 12 metropolitan statistical areas ("MSA") and one primary MSA situated within its borders. From 1990 to 2000, population growth within the Indianapolis MSA increased 16.4%, making it the second fastest growing major metropolitan area in the Midwest, surpassing the nation's growth. All but two of Indiana's other metropolitan areas showed increases in population for the decade, with the Elkhart-Goshen area leading the way at 17%, while the Muncie region's population decreased .07%.

Table 20							
Population of Indiana Cities and MSAs							
Cities				Metropolitan Statistical Areas			
City	1990 Census	2000 Census	% Change	MSA	1990 Census	2000 Census	% Change
Indianapolis	741,952	791,926	6.7%	Indianapolis MSA [(1)]	1,380,491	1,607,486	16.4%
Fort Wayne	173,072	205,727	18.9%	Fort Wayne MSA [(2)]	456,281	502,141	10.1%
Evansville	126,272	121,582	-3.7%	Evansville-Henderson MSA [(3)]	156,198	182,791	17.0%
Gary	116,646	102,746	-7.6%	Gary Primary MSA [(4)]	604,526	631,362	4.4%
South Bend	105,511	107,789	-2.6%	South Bend MSA[(5)]	247,052	265,559	7.5%

(1) Marion, Boone, Hamilton, Madison (including the City of Anderson), Hendricks, Hancock, Morgan, Johnson and Shelby counties. The Indianapolis MSA is adjacent to the Lafayette (including Purdue University), Kokomo, Muncie (including Ball State University) and Bloomington (including Indiana University) MSAs.
(2) Allen, DeKalb, Whitley, Huntington, Wells and Adams counties.
(3) Posey, Vanderburgh (including University of Southern Indiana) and Warrick counties, Indiana, and Henderson County, Kentucky.
(4) Lake and Porter counties, Indiana; part of the Chicago-Gary-Kenosha, Illinois-Indiana-Wisconsin CMSA.
(5) St. Joseph County, Indiana (including University of Notre Dame); adjacent to Elkhart-Goshen MSA, Elkhart County, Indiana.

Source: U.S. Census Bureau.

As reflected in Table 21 and 21a, the State's demographic profile closely matches the nation. Changes in the Indiana demographic profile since 1990 also match national trends, including a decline in the portion of the population between eighteen and twenty-four and an increase in the portion of the "aging baby boomer" (age 45-64) population. Interestingly, Indiana has seen a nominal decrease in the size of its "senior citizen" population. Unlike the nation, Indiana's median age has become younger as a greater proportion of young people are added to the population.

Table 21				
Demographic Profile				
Age (Years)	Indiana		United States	
	1990	2000	1990	2000
Under 5	7.2%	7.0%	7.6%	6.8%
5-17	18.7%	18.9%	18.2%	18.9%
18-24	11.0%	10.2%	10.8%	9.7%
25-44	31.5%	29.4%	32.4%	30.2%
45-64	19.1%	22.0%	18.6%	22.0%
65 and older	12.6%	12.4%	12.5%	12.4%
Median Age	35.4%	35.2%	32.8%	35.3%

Source: U.S. Census Bureau

Table 21a				
Projected Population by Age 2000 to 2010 (in thousands)				
Age (Years)	Indiana		United States	
	2000	2010	2000	2010
Under 18	1,518	1,499	70,782	72,510
Percent	25.1	23.7	25.8	24.4
18 to 44	2,396	2,270	108,151	106,951
Percent	39.6	35.9	39.4	35.9
45 to 64	1,368	1,697	60,991	78,847
Percent	22.6	26.9	22.2	26.5
65 plus	763	852	34,710	39,408
Percent	12.6	13.5	12.6	13.2
Total	6,045	6,318	274,634	297,716

Source: U.S. Census Bureau.

Gross State Product

With an estimated 1999 Gross State Product of more than $182.2 billion, Indiana's economy ranks as the 15th largest in the country in terms of the value of goods and services produced. After trailing the national growth rate during the 1980's, Indiana's economy has grown at a significantly faster pace than the nation during the 1990's, increasing its weight as a percent of the national economy.

Table 22					
Total Gross State and Domestic Product					
	In Millions of Current Dollars			Growth Rate	
	1980	1990	1999	1980 to 1990	1990 to 1999
Indiana	58,379	110,788	182,202	89.8%	64.5%
U.S.	2,731,618	5,706,658	9,308,983	108.9%	63.1%
Indiana as %of U.S. GDP	2.1%	1.9%	2.0%		

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

The State's economy is increasingly diversified, having undergone a shift in composition over time. Since 1980, agriculture has declined in importance to the Indiana economy, accounting for 1% of the State's economic production in 1999, same as the national average. Conversely, the service sector has grown significantly, increasing from 14.8% to 16.6% of total state output. Manufacturing has increased its share of Gross State Product very slightly, but at 30.9% still remains the largest component of the economy.

Table 23

Gross State Product (GSP) and Gross Domestic Product (GDP) in Current Dollars

	1990		1999		Growth Rate 1990-1999	1999		Indiana as a % of U.S
Sector	Indiana GSP (millions)	% of Total	Indiana GSP (millions)	% of Total		U.S. GDP (million)	% of Total	
Agriculture	2,476	2.2%	1,820	1.0%	-26%	125,441	1.3%	1.5%
Mining	640	0.6%	761	0.4%	19%	111,797	1.2%	0.7%
Construction	5,074	4.6%	9,235	5.1%	82%	416,354	4.5%	2.2%
Manufacturing	33,665	30.3%	56,294	30.9%	67%	1,500,806	16.1%	3.8%
Transportation & Utilities	10,111	9.1%	13,845	7.6%	37%	779,647	8.4%	1.8%
Wholesale Trade	6,452	5.8%	11,157	6.1%	73%	643,284	6.9%	1.7%
Retail Trade	10,238	9.2%	16,853	9.2%	65%	856,364	9.2%	2.0%
F.I.R.E	13,691	12.3%	23,744	13.0%	73%	1,792,090	19.3%	1.3%
Services	16,416	14.8%	30,219	16.6%	84%	1,986,918	21.3%	1.5%
Government	12,228	11.0%	18,273	10.0%	49%	1,096,282	11.8%	1.7%
Summed Total	110, 991		182,273			9,308,983		2.0%

Source: U.S. Department of Commerce, Bureau of Economic Analysis. Totals may not add due to rounding.

Income

Personal Income. In 2000, Indiana's per capita personal income reached $27,011, increasing 3.3% over 1999. Over the past ten years, Indiana's personal income has grown at an average annual rate of 3.96%, exceeding the national average rate of 3.85%.

Table 24

% Growth in Per Capita Personal Income

Year	Indiana	U.S.	Indiana	U.S.
1990	17,625	19,584		
1991	18,055	20,089	2.4%	2.6%
1992	19,629	21,082	8.7%	4.9%
1993	20,112	21,718	2.5%	3.0%
1994	21,153	22,581	5.2%	4.0%
1995	21,845	23,562	3.3%	4.3%
1996	22,775	24,651	4.3%	4.6%
1997	23,748	25,874	4.3%	5.0%
1998	25,182	27,322	6.0%	5.6%
1999	26,143	28,542	3.8%	4.5%
2000	27,011	29,676	3.3%	4.0%
Annual Average Growth			3.96%	3.85%

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Household Income. Indiana's median household income has grown faster than the U.S. and now exceeds the national median. During the early 1990's household income declined in Indiana and across the U.S. After bottoming out in 1994, Indiana's household income has increased 27.6% to $40,769 in 1999 versus 13.7% growth over the same period for the U.S. Indiana is clearly a middle-income state. 70% of Indiana families earn incomes in the three middle quintiles, versus 60% for the U.S. Household income reflects, in addition to personal income, other sources of wealth such as social security, disability benefits, pensions, interest, dividend, trust, and rent. Household income may also reflect multiple wage earners contributing to family income.

Table 25

Growth in Median Household Income
2-yr average

	Indiana	U.S.	Indiana	U.S.
1989	35,136	37,755		
1990	33,813	37,670	-3.8%	-0.2%
1991	33,001	36,699	-2.4	-2.6
1992	32,783	35,824	-0.6	-2.4
1993	33,198	35,417	1.3	-1.1
1994	31,945	35,364	-3.8	-0.2
1995	33,174	35,966	3.9	1.7
1996	36,110	36,659	8.9	1.9
1997	38,004	37,227	5.3	1.6
1998	39,613	38,233	4.2	2.7
1999	40,769	40,280	2.9	5.4
Average Annual Growth			1.5%	0.65%

Source: U.S. Census Bureau: *Current Population Survey*.

Poverty. Indiana has the third lowest poverty rate in the nation, with only 8.3% of the state living below the poverty level in 1999. This represents a significant change from 1990 when 12.3% of Indiana residents lived in poverty, and a divergence from national trends, where poverty has remained consistent at around 13% of the population.

Table 26

Poverty Rates for Selected States – 1997-1999 3-Year Average

State	Poverty Rate	Rank (Lowest to Highest)
Maryland	7.6	1
Utah	7.9	2
Indiana	8.3	3
Wisconsin	8.5	4
Michigan	10.3	16
Illinois	10.4	17
Ohio	11.4	25
Kentucky	13.8	37
United States	12.6	--

Source: U.S. Census Bureau: *Current Population Survey*.

Employment

Indiana experienced strong gains in non-farm employment between 1990 and 2000, adding 488,400 net new jobs, a growth rate of 19.4%. Indiana's average rate of growth, 1.8%, was equal to that of the nation.

Table 27					
Non-Farm Employment					
	Total Employment		% Change		Net New Jobs
Year	Indiana	U.S.	Indiana	U.S.	Indiana
1990	2,521,900	109,403,000			
1991	2,507,300	108,249,000	-0.6%	-1.1%	-14,600
1992	2,554,200	108,601,000	1.9%	0.3%	46,900
1993	2,626,900	110,713,000	2.8%	1.9%	72,700
1994	2,712,700	114,163,000	3.3%	3.1%	85,800
1995	2,786,500	117,191,000	2.7%	2.7%	73,800
1996	2,814,400	119,608,000	1.0%	2.1%	27,900
1997	2,858,583	122,690,000	1.6%	2.6%	44,183
1998	2,917,300	125,826,000	2.1%	2.6%	58,717
1999	2,969,900	128,615,000	1.8%	2.2%	52,600
2000	3,010,300	131,386,333	1.4%	2.2%	40,400
Average Annual Growth Rate			1.8%	1.8%	
Total Growth			19.4%	20.1%	488,400

Note: Totals may not add as a result of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

During this past decade, employment has shifted between sectors, reflecting the fundamental changes taking place in the state's economy. As of March 2001, service sector employment represented 25.3% of all non-farm employment, nearly 3% more than the 22.4% of jobs held by the manufacturing sector.

Table 27a					
Annual Non-Farm Employment					
Sector	1990	% of Total	2000	% of Total	Growth 1988-00
Mining	8,100	0.3%	6,000	0.2%	-25.9%
Construction	115,700	4.6%	153,200	5.1%	32.4%
Manufacturing	638,000	25.3%	687,800	22.8%	7.8%
Wholesale and Retail Trade	600,300	23.8%	710,300	23.6%	18.3%
Finance, Insurance, Real Estate	123,000	4.9%	140,700	4.7%	14.4%
Transportation and Public Utilities	132,800	5.3%	148,800	4.9%	12.0%
Services	525,400	20.8%	751,400	25.0%	43.0%
Government	378,600	15.0%	412,200	13.7%	8.9%
Total	2,521,900		3,010,300		19.4%

Note: Totals may not add as a result of rounding.

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

Over the course of the past decade, investment and expansion in certain high-wage industrial sectors have occurred in Indiana, while declining elsewhere. Several major industrial sectors such as steel, auto, and plastics have a major presence in the state and manufacturing employment in general has remained stable. Many industry analysts and economists often refer to Indiana's economy as one that is over reliant on one or two industrial sectors. However, it should be noted that Indiana's large industrial sector is not characterized by one or two predominant industries, but is notable for its industrial diversity. Indiana is a national leader in products as diverse as surgical supplies, potato chips, furniture, transistors, glass containers, band instruments, books, etc. The following table looks at the largest sectors by employment. Of the fifteen sectors listed below, only three are manufacturing, with most falling under services and trade. The top five industries within these sectors comprise 28.8% of the total workforce.

Table 28		
Industry Diversity 2000		
Sector	Indiana Employment	Sector Share of Total Employment
Health Services*	260,030	8.90%
Eating and Drinking Places	204,851	7.00%
Educational Services*	197,981	6.80%
Motor Vehicles & Equipment	103,033	3.50%
Government (General)	74,885	2.60%
Department Stores	70,935	2.40%
Grocery Stores	61,466	2.10%
Trucking & Courier Services	59,138	2.00%
Plastic Products	39,974	1.40%
Amusement & Recreation	34,770	1.20%
Miscellaneous Business Services	34,494	1.20%
Steel Mills	33,043	1.10%
Commercial Banks	28,506	1.00%

*Note: all categories are three-digit SIC Code Classification except Health and Education Services which are two-digit codes.

Source: U.S. Department of Labor, Bureau of Labor Statistics: *Current Employment Survey*

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Table 29

100 Largest Public and Private Employers in Indiana

Company	Indiana FTE Employees	Company	Indiana FTE Employees
Kroger Co.	24,000	United Airlines	3,400
Wal-Mart	22,000	Walgreens Drug Stores	3,400
McDonald's	18,000	Federal Express	3,375
Delphi Automotive	17,000	United Technologies Corp.	3,350
General Motors	13,500	CNB Bankshares	3,300
Daimler-Chrysler Corp.	12,800	Coachman Industries	3,300
Eli Lilly and Co.	12,410	Subway	3,300
K-mart	12,000	Wabash National Corp.	3,300
Clarian Health Partners	10,000	Bob Evans Restaurants	3,200
Dana Corp.	9,300	Lincoln National Corp.	3,200
Marsh Supermarkets	8,900	SuperValu	3,200
Ispat Inland Inc.	8,300	Subaru Isuzu Automotive	3,160
Bank One, Indiana	8,000	Lear corp.	3,100
United States Steel Co.	8,000	Anthem	3,000
Visteon Automotive Systems	7,800	Applebees	3,000
Burger King	7,200	Hillenbrand Industries	3,000
General Electric Co.	7,100	KFC	3,000
Pizza Hut	7,050	Papa Johns Pizza	3,000
Cummins Engine Co.	7,000	Guide Corp	2,940
Ameritech Indiana	6,700	Whirlpool Corp.	2,900
Central Indiana Health System	6,500	White Castle	2,825
Kimball International Inc.	5.865	Aristokraft Inc.	2,800
CVS Drugs	6,050	Federal Mogul Corp.	2,800
Bethlehem Steel Corp.	6,000	Raytheon Co.	2,600
Meijer inc.	6,050	Thompson Consumer Electronics	2,530
NiSource Inc.	5,300	Fairmont Homes	2,500
Dairy Queen	5,200	Marriott	2,500
Wendy's	5,150	National City Bank	2,500
Rolls Royce Allison	5,000	USA Group	2,500
Taco Bell	5,000	Toyota Motor Co.	2,475
Hardees	4,800	Amtran	2,400
Sony Electronics	4,681	Bayer Corp.	2,350
Arby's RTM Mid-America	4,550	Tomkins Industries	2,350
Quorum	4,400	Brylane LP	2,300
Alcoa, Inc.	4,300	Frito-Lay Inc.	2,300
Bristol-Myers Squibb Co.	4,300	Goodwill Industries	2,300
Target	4,300	ITT Defense & Electronics	2,300
Sears & Roebuck	4,200	AT&T	2,200
Sony Electronics	4,150	Central Newspapers Inc.	2,200
Arvin Industries	4,100	Fleetwood Enterprises Inc	2,200
Cinergy/PSI	4,000	Lowe's	2,200
LTV Steel	4,000	Monaco Coach	2,200
Indiana Michigan Power	3,800	Dura Automotive	2,100
RR Donnelley & Sons	3,800	Allied Signal	2,050
United Parcel Service	3,740	Caesar's World Casino	2,000
Conseco	3,600	Hyatt Grand Victoria Casino	2,000
Consolidated Products	3,600	Smurfit Stone Container	2,000
Navistar International	3,500	Franklin Electric Co.	1,950
Norfolk Southern corp.	3,500	IPALCO	1,940
GTE North, Indiana	3,400	Burlington Motor Carriers	1,930

Source: Indiana Chamber of Commerce

Unemployment

Indiana has maintained lower annual unemployment rates than the nation since 1990. Although unemployment rates have fallen for both Indiana and the nation since 1992, Indiana has experienced much steeper declines. In 2000, Indiana's average rate of 3.2% was again below the national average of 4.0%, and only two Indiana MSAs and 25 of its 92 counties had unemployment rates higher than the national average.

Table 30

Unemployment Rate (annual averages of monthly data)

Year	Indiana	U.S.	Indiana as % of U.S.
1990	5.3	5.6	94.6
1991	6.0	6.8	88.2
1992	6.6	7.5	88.0
1993	5.4	6.9	78.3
1994	4.9	6.1	80.3
1995	4.6	5.6	82.1
1996	4.1	5.4	75.9
1997	3.5	4.9	71.4
1998	3.1	4.5	68.9
1999	3.0	4.2	71.4
2000	3.2	4.0	80.0

Source: U.S. Bureau of Labor Statistics: *Local Area Unemployment Survey*

Exports

Between 1990 and 2000, both Indiana and the nation experienced strong export growth. During this period, Indiana exports increased by over 160%, exceeding the overall national growth rate by 99%. In 2000, Indiana experienced export growth of slightly more than 18% while exports for the United States increased by about 13%. In 2000, the State's exports rose to an all-time high of $16.53 billion. The fastest growing industry was Primary Metals, with a 56% increase, followed by Industrial Machinery and Computer Equipment with a 35% growth over the prior year. Mexico accounts for the fastest growing market, with exports more than doubling from $812 million in 1999 to $2.217 billion in 2000. Canada remained Indiana's largest trading partner. In 2000, Indiana opened its 13th foreign trade office in Israel.

Table 31

Indiana Exports

Year	Exports in Millions of Dollars		Annual Percentage Change		
	Indiana	U.S.	Indiana	U.S.	Indiana as a % of U.S. Exports
1990	6,359	392,975	17.46	12.88	1.6
1991	6,438	421,853	1.23	7.35	1.5
1992	6,837	447,471	6.21	6.07	1.5
1993	8,033	464,858	17.49	3.89	1.7
1994	9,261	512,416	15.29	10.23	1.8
1995	11,628	583,031	25.56	13.78	2.0
1996	12,039	622,827	3.53	6.83	1.9
1997	13,136	687,598	9.11	10.40	1.9
1998	13,403	680,474	2.03	(1.04)	2.0
1999	13,970	692,820	4.23	1.81	2.0
2000	16,528	780,419	18.31	12.64	2.1

Table 32			
Indiana's Leading Trade Partners			
Top Export Destinations		Fastest Growing Export Destinations **Since 1988***	
Country	2000 Exports ($M)	Country	% Avg. Annual
Canada	$7554	Poland	40.6
Mexico	2,217	Philippines	28.2
UK	890	Hungary	28.0
Japan	876	Mexico	27.3
Netherlands	577	Malaysia	25.5
France	522	Honduras	23.8
Germany	452	Argentina	22.3
Brazil	328	Portugal	22.1
Australia	284	United Arab Emirates	21.6
Singapore	282	Chile	20.6

* Includes only those export destinations receiving over $100 million in total exports from Indiana since 1988.

Table 33			
Indiana's Leading Export Industries			
Top Export Industries		Fastest Growing Export Industries **Since 1988***	
Industry	2000 Exports ($M)	Industry	% Avg. Annual Growth
Transportation Equipment	$4,901	Fabricated Metal	18.13
Industrial. Machinery	2,916	Stone, Clay, & Glass	17.62
Chemicals	2,372	Transportation Equipment	15.90
Electronics	1,411	Instruments	14.65
Primary Metals	1,026	Rubber & Plastic	13.81
Fabricated Metals	880	Industrial Machinery	12.08
Technology Instruments	844	Wood Products	11.59
Rubber & Misc. Plastic	579	Food Products	9.72
Food Products	291	Electronics	8.30
Stone, Clay, & Glass	206	Primary Metals	7.95

Includes only those export destinations with growth over $100 million in total exports from Indiana since 1988.
Excludes Miscellaneous Goods shipments
Growth is based on geometric growth rate.

Source: Massachusetts Institute for Social and Economic Research (MISER)

Transportation

Indiana is bordered on the north by Lake Michigan and the State of Michigan, on the south by the Ohio River and the Commonwealth of Kentucky, on the east by the State of Ohio, and on the west by the State of Illinois. The "Crossroads of America," Indiana is centrally situated within the Great Lakes region and is within a day's drive of nearly two-thirds of the United States' population. In addition to an extensive network of highways and railroads, the State has strong air service for both passengers and freight and access to the Great Lakes and the St. Lawrence Seaway, as well as the Ohio and Mississippi rivers.

Highways. Five interstate routes converge on Indianapolis. The Indiana Department of Transportation manages a network of more than 11,000 miles (17,600 km) of federal and State highways. The State is an important location for truck terminals and warehouse centers. This is reflected in the density of truck traffic in the state. Indiana highways have sixth highest concentration of truck traffic and the highest for any urban or Eastern state.

Railroads. Indiana is served by at least 45 freight railroads according to the Rail Section of the Indiana Department of Transportation. The State rail network provides, among other transportation services, access between northeast and western states and between the City of Chicago and the southeastern states. The State has approximately 4,250 miles of railroad track. Ninety of Indiana's ninety-two counties have direct rail service.

Aviation. The State has 103 public use landing facilities. Of these, five are primary airports, 9 are reliever airports, 103 are general aviation airports, 3 are ultralight flight parks, 4 are seaplane bases, and 2 are heliports. The primary airports include one medium hub, two small hub airports and two nonhub airports. The world's leading air cargo and package services operate major facilities in Indiana, including Federal Express, the U.S. Postal Service and American International Freightways.

Ports and Waterways. The Great Lakes/St. Lawrence Seaway and the Ohio River provide conduits for bulk commodities and general cargo movement of agricultural and manufacturing products. In 1970, the State opened Indiana's International Port, on Lake Michigan to accommodate international and Great Lakes traffic. In 1979, the State opened Southwind Maritime Centre, along the Ohio River, near Mount Vernon in southwest Indiana; and, in 1984, the State opened Clark Maritime Centre along the Ohio River, near Jeffersonville, in south central Indiana.

Public Transportation. Indiana's 43 public transit systems include fixed route and demand response bus systems including one commuter rail system (between South Bend and Chicago). The State's public transit systems carried over 30.3 million passengers in 1999, an increase of 6.8% from 1998. Transit system vehicles traveled 31.0 million miles in 1999, an increase of 5.2% from 1998. Total fare revenue collected in 1999 was $29.6 million. The statewide farebox recovery percentage (which illustrates the extent to which total operating expenses are covered by fare-paying passengers) was 27.4% in 1999. The State Public Mass Transportation Fund, which receives .8% of total State Sales and Use Taxes, accounted for $26.3 million, or 24.0%, of total public transit operating revenues in 1999.

Education

Elementary and Secondary. Elementary and Secondary education in the State is provided by 294 school districts, which in the 1999-00 school year operated 1,149 elementary schools, 258 elementary/junior high schools, 19 elementary/high schools, 92 junior high/high schools, 74 junior high schools, 240 high schools and 128 schools of special education, vocational education and alternative programs. These numbers do not include private or independent or parochial elementary and high schools, which, in the 1999-00 school year, accounted for 7.1% of the total enrollment at elementary and secondary schools within the State. Public student enrollment for the 2000-01 school year was 988,691.

All public elementary and secondary schools are administered locally by elected or appointed school boards. At the State level, schools are administered by the State Board of Education, which is comprised of the Superintendent of Public Instruction (who serves as chairman) and ten members appointed by the Governor and the Superintendent of Public Instruction for four-year terms. At least four of the appointments must be actively employed in Indiana schools and hold valid teaching licenses. The State Board of Education is the State's policymaking and planning body for the public school system. The State Department of Education serves as the professional, technical and clerical staff for the Indiana State Board of Education.

Approximately 59,735 teachers and 10,344 other professional staff members were employed in the State public school system during the 1999-00 school year. This results in a student teacher ratio (based on total enrollment,) of 16.5:1. The average annual salary for public school teachers in the State (excluding part-time teachers) was $41,850 during the 1999-00 school year.

Higher Education. The Commission for Higher Education was established in 1971 to plan and coordinate Indiana's system of post-secondary education. The Commission develops long-range plans, reviews budget requests of public post-secondary institutions, and considers the approval of new degree programs.

Indiana has seven public post-secondary institutions. They include six universities, one of which offers only two-year degrees, and a technical college. Indiana University manages seven campuses including the flagship campus in Bloomington and the joint IU-Purdue campus in Indianapolis. Purdue University is the State's land grant institution. It manages four campuses, including a joint IU-Purdue campus in Fort Wayne. Ivy Tech State College offers degree programs on twenty-three campuses. Vincennes University maintains a branch campus in Jasper and several instructional sites in Indianapolis. The State is also home to more than thirty-two independent colleges and universities. In the fall of 2000, Indiana's public campuses enrolled 243,282 students – a 4% increase over fall 1999 enrollment, while the independent campuses enrolled 68,106 – a 1.4% increase over fall 1999 enrollment.

In 1999, the Indiana General Assembly authorized the creation of a new learning partnership in Indiana, the Community College of Indiana. This partnership of Ivy Tech State College and Vincennes University will focus on both non-degree, skill improvement courses as well as two-year degrees, with greater opportunity to transfer course credits to four-year state universities. The new Community College will stress accessible and affordable education, training and support services. Ivy Tech's twenty-three statewide campuses will provide the facilities for the College. Initial pilot sites in Evansville, Gary, Lafayette and Indianapolis opened in the fall of 2000 with very strong enrollment gains. Current plans are that campuses in Anderson, Lawrenceburg, Marion and Muncie will be added in 2001, with expansion to all Ivy Tech locations over the next six years.

In 1998, nearly 61% of Indiana's high school graduates went on to college, compared to the national average of 57.2%, ranking Indiana 17th in the nation. This is the first time ever that Indiana has exceeded the national average. From 1994 to 1998, the national average experienced little to no growth while Indiana's college-going rate increased by 5.5%, placing the state among the top ten for percentage gains in college attendance of high school graduates.

Fiscal year 2000-01 state operating appropriations for the seven public institutions total $1.1 billion, while estimated tuition and fee income totals $828 million. Also for 2000-01, the General Assembly appropriated $150 million for campus facilities, including debt service and repair and rehabilitation funding for buildings and utilities. The legislature also provided $119 million for the state student assistance program and $60 million for higher education line items.

Public Post-Secondary Institutions
1999-00

Name	Programs Offered	FTE Enrollment	Campus Locations
Ball State University	4-year	19,023	Muncie
Indiana State University	4-year	11,051	Terre Haute
Indiana University	4-year	87,946	Bloomington, Richmond, Kokomo, Gary, South Bend, New Albany, Indianapolis, Fort Wayne
Purdue University	4-year	62,736	West Lafayette, Hammond, Fort Wayne, Westville, Indianapolis
University of Southern Indiana	4-year	9,012	Evansville
Vincennes University	2-year	8,271	Vincennes, Jasper, Indianapolis
Ivy Tech State College	2-year	44,500	Gary, East Chicago, South Bend, Elkhart, Valparaiso, Fort Wayne, Lafayette, Kokomo, Muncie, Anderson, Wabash Valley, Richmond, Columbus and Bloomington, Lawrenceburg, Evansville, Sellersburg, Indianapolis

LITIGATION

The following is a summary of certain significant litigation and other claims currently pending against the State. This summary is not exhaustive either as to the description of the specific litigation or claims described or as to all of the litigation or claims currently pending or threatened against the State.

In 1968, a lawsuit seeking to desegregate the Indianapolis Public Schools was filed in the United States District Court for the Southern District of Indiana. Since about 1978, the State has paid several million dollars per year for inter-district busing that is expected to continue through 2016. The federal court entered its final judgment in 1981 holding the State responsible for most costs of its desegregation plan, and those costs have been part of the State's budget since then. In June 1998, the parties negotiated an 18-year phase out of the desegregation plan that was approved by the Court and will gradually reduce the State's expenditures over that time frame.

On July 26, 1993, a lawsuit was filed in Marion Superior Court alleging that the State has failed to pay certain similarly classed State employees at an equal rate of pay. The plaintiffs in the action sought class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. This matter is still pending and, if the plaintiffs are ultimately successful, the loss would be in excess of $5 million.

In a lawsuit filed against the State on January 9, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that permits the State to ignore applicant's inability to pay for medical treatment that would lead to improvement in the applicant's medical condition. After an appeal and remand, the trial court again invalidated the standard in December 1999, and the Court of Appeals affirmed the trial court's decision. The State sought transfer to the Supreme Court and was notified on June 21, 2001 that transfer had been denied. The State has not fully determined the ultimate fiscal impact of the judgment of the Marion Superior Court upon the State, nor has it formed an opinion or conclusion as to whether the finality of the judgment will have a material adverse effect upon the financial condition of the State. The State, however, estimates that under certain circumstances the fiscal impact could be as much as $90,000,000 per year in additional State Medicaid expenditures, plus damages incurred in prior years by class members.

In 1993, certain transportation providers filed lawsuits against the State, challenging the current Medicaid reimbursement program for transportation services. The State prevailed before two trial courts, but the plaintiffs appealed. The State won the appeal, but the federal appeal resulted in a remand for lack of federal jurisdiction. The State will retry the federal issues before a state trial court. If the rules are ultimately enjoined, the State would forfeit savings in excess of $5 million.

A class action by a group of truckers and trucking companies seeks what may be in excess of $5 million in fuel tax refunds attributable to five quarters between the date the previous proportional use exemption was declared unconstitutional and the date the present proportional use exemption was enacted. The case is presently pending in the Tax Court.

In September 2000 various Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the Indigent property tax and that the tax therefore violates various constitutional provisions. It is similar to five previous suits that were dismissed on procedural grounds but this one is likely to be addressed on the merits. A response to the petition was filed in November 2000. Plaintiffs are claiming that upwards of $20 million should be refunded to taxpayers.

In February 2000 several trucking companies filed a suit in Tax Court challenging the collection of motor fuel tax attributable to miles driven on the Indiana Toll Road and seeking refunds of approximately $100 million. They claim that motor fuel tax tied to Toll Road use violates the Commerce Clause of the U.S. Constitution and constitutes double taxation as the truckers also pay to use the Toll Road. Motions on class certification issues and liability are presently pending before the Tax Court.

A gaming corporation operating one of the riverboats has challenged the interpretation the Department of Revenue has placed on the Riverboat Gaming Tax, claiming that the tax is not an add-back tax for adjusted gross income tax and supplemental net income tax purposes. The case is pending before the Tax Court on cross motions for summary judgment. The potential financial impact of this case is between $5 and $10 million, with additional impact because of the precedent it would have on other gaming operations.

Property owners filed an action against the Department of Environmental Management, the Office of Environmental Adjudication and current and former officials of those agencies claiming the denial of a permit for certain land use was an unconstitutional taking and denial of due process, as well as violation of the Indiana Constitution. The case is pending in federal court and is in the earliest stages of litigation.

The State intends to vigorously defend each of the foregoing suits or other claims.

The State does not establish reserves for judgments or other legal or equitable claims against the State. Judgments and other such claims must be paid from the State's unappropriated balances and reserves, if any. See "FINANCIAL RESULTS OF OPERATIONS." With respect to tort claims only, the State's liability is limited to $300,000 for injury to or death of one person in any one occurrence, and $5,000,000 for injury to or death of all persons in that occurrence.

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EXHIBIT B-1
TO
APPENDIX B

GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE STATE OF INDIANA
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

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STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITORS' REPORT

TO: The Honorable Frank O'Bannon
The Legislative Council of the General Assembly, and
The Citizens of the State of Indiana

We have audited the accompanying general purpose financial statements of the State of Indiana as of and for the year ended June 30, 2000. These general purpose financial statements are the responsibility of the State of Indiana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain component units of the State, as discussed in Note I(A), which statements reflect total assets and revenues of $5,421.4 million and $1,047.8 million, respectively, as of and for the year ended June 30, 2000. The financial statements of these component units were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to those units, is based solely upon the reports of the other auditors. The reports represent 20.7% of special revenue fund assets, 100% of debt service fund assets, 1.5% of capital projects fund assets, 94.5% of enterprise fund assets, 88.8% of internal service fund assets and 100% of proprietary and governmental discretely presented component unit assets.

We conducted our audit in accordance with general accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Indiana as of June 30, 2000, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended, in conformity with generally accepted accounting principles.

As discussed in Note III (I) to the financial statements, the State of Indiana has restated certain beginning fund balances and retained earnings. The Housing Finance Authority, a discretely presented component unit, reports on a December 31, 1999 year end.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Indiana. The combining and individual fund financial statements, account groups and schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, and not the information in the Introductory and Statistical sections, has been subjected to auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the fund types and account groups included in the general purpose financial statements taken as a whole. We express no opinion on the information in the Introductory or Statistical Sections.

In accordance with Government Auditing Standards, we have also issued our report dated December 20, 2000, on our consideration of the State of Indiana's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants.

State Board of Accounts

December 20, 2000

STATE BOARD OF ACCOUNTS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: The Honorable Frank O'Bannon
The Legislative Council of the General Assembly, and
The Citizens of the State of Indiana

We have audited the financial statements of the State of Indiana as of and for the year ended June 30, 2000, and have issued our report thereon dated December 20, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the State of Indiana's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Indiana's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the State of Indiana's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the single audit report of the State of Indiana.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. The reportable conditions referred to above may be considered material weaknesses.

This report is intended solely for the information and use of the State of Indiana's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1 this report is a part of the public records of the State Board of Accounts and of the office examined.

State Board of Accounts

December 20, 2000 STATE BOARD OF ACCOUNTS

State of Indiana
Combined Balance Sheet
All Fund Types, Account Groups, and Component Units
June 30, 2000
(amounts expressed in thousands)

	Governmental Fund Types				Proprietary Fund Types	
Assets and other debits:	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets:						
Cash, cash equivalents and investments - restricted	$ -	$ -	$ -	$ -	$ 56,134	$ 14,360
Cash, cash equivalents and investments - unrestricted	2,725,338	2,642,876	12,914	470,941	284,019	218,394
Securities lending collateral	2,917,034	750,949	-	347,140	-	2,173
Receivables:						
Taxes	647,551	203,369	-	1,459	-	-
Accounts	-	11,542	-	-	17,652	9,205
Grants	86	90,953	-	174	-	-
Notes	-	-	-	-	-	-
Interest	15,895	23,183	30	1,840	723	906
Contributions	-	-	-	-	-	-
Member loans	-	-	-	-	-	-
Interfund	10,131	7,500	-	25,782	-	-
Due from other funds	159	-	3,386	-	-	7,252
From investment sales	-	-	-	-	-	-
Other	-	-	-	-	-	-
Due from primary government	-	-	-	-	-	-
Advances to other funds	2,408	54,411	-	2,334	685	300
Intergovernmental loans	10,446	326,846	-	7,758	-	-
Student loans	-	-	-	-	-	-
Mortgage loans	-	-	-	-	-	-
Inventory	-	-	-	-	4,621	10,847
Prepaid expenses/expenditures	1,569	4,401	-	-	569	1,551
Food stamp inventory	-	83,084	-	-	-	-
Construction in progress	-	-	-	-	21,400	62,228
Bond issue costs - net of amortization	-	-	-	-	2,105	10,855
Property, plant and equipment, net	-	-	-	-	215,409	580,646
Other assets	-	-	-	861	10,919	-
Other debits:						
Amount available for debt service fund	-	-	-	-	-	-
Amount to provided for retirement of long term debt	-	-	-	-	-	-
Total assets and other debits	$ 6,330,617	$ 4,199,094	$ 16,330	$ 858,289	$ 614,416	$ 918,716
Liabilities, equity and other credits:						
Liabilities:						
Accounts payable	$ 123,231	$ 522,758	$ 2	$ 5,225	$ 21,791	$ 15,589
Accrued interest payable	-	-	4,288	-	5,402	37,401
Salaries and benefits payable	40,228	36,235	-	-	2,724	961
Capital lease payable	-	-	-	-	-	94
Pension / health / disability benefits payable	-	-	-	-	-	22,416
Interfund payables	-	10,131	-	-	40,782	-
Due to component unit	-	551,880	-	-	-	-
Due to other funds	2,235	9,228	-	-	-	242
Tax refunds payable	25,896	2	-	-	-	-
Deferred revenue	-	105,425	-	-	3,252	6,415
Accrued prize liability	-	-	-	-	42,421	-
Accrued liability for compensated absences	2,908	2,599	-	-	-	92
Intergovernmental payable	-	-	-	-	-	-
Escheated property liability	-	-	-	-	-	-
Investment purchases payable	-	-	-	-	-	-
Other liabilities	-	-	-	-	1,263	501
Securities lending collateral	2,917,034	750,949	-	347,140	-	2,173
Obligations under reverse repurchase agreements	-	-	-	-	-	-
Reimbursement agreement obligation	-	-	-	-	-	-
Long term liabilities:						
Construction retention	-	-	-	-	-	3,201
Accrued liability for compensated absences	-	-	-	-	330	1,538
Capital lease payable	-	-	-	-	-	133
Accrued prize liability	-	-	-	-	62,762	-
Advances from other funds	-	56,319	-	865	2,634	500
Revenue bonds / notes payable	-	-	-	-	242,516	753,491
Total liabilities	3,111,332	2,045,306	4,290	353,230	425,877	844,747
Equity and other credits:						
Investment in general fixed assets / plant	-	-	-	-	-	-
Contributed Capital	-	-	-	-	9,308	20,349
Retained earnings:						
Reserved (see note III. G.)	-	-	-	-	60,922	7,397
Unreserved	-	-	-	-	116,309	46,223
Fund balances:						
Reserved (see note III. G.)	333,306	1,399,721	12,040	23,307	-	-
Unreserved:						
Allocated	-	-	-	-	-	-
Unallocated	-	-	-	-	-	-
Designated for appropriations	372,412	242,736	-	359,099	-	-
Designated for allotments	1,155,600	1,270,274	-	101,846	-	-
Undesignated	1,357,965	(758,943)	-	20,807	-	-
Total equity and other credits	3,219,285	2,153,788	12,040	505,059	186,539	73,969
Total liabilities, equity and other credits	$ 6,330,617	$ 4,199,094	$ 16,330	$ 858,289	$ 614,416	$ 918,716

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Units			Totals Reporting Entity
Trust and Agency	General Fixed Assets	General Long Term Debt	(Memorandum Only)	Governmental	Proprietary	Colleges and Universities	(Memorandum Only)
$ -	$ -	$ -	$ 70,494	$ 4,766	$ 278,462	$ -	$ 353,722
18,713,439	-	-	25,067,921	28,205	334,285	2,308,961	27,739,372
1,571,671	-	-	5,588,967	-	297,307	146,403	6,032,677
20,147	-	-	872,526	-	-	-	872,526
42	-	-	38,441	-	-	136,455	174,896
-	-	-	91,213	-	-	-	91,213
-	-	-	-	1,984	-	-	1,984
103,721	-	-	148,297	-	44,074	17,606	207,977
135,605	-	-	135,605	-	-	-	135,605
8,666	-	-	8,666	-	-	-	8,666
7,500	-	-	50,913	-	-	-	50,913
14,610	-	-	25,407	-	-	-	25,407
210,081	-	-	210,081	-	-	-	210,081
-	-	-	-	282	-	3,486	3,768
-	-	-	-	-	551,660	-	551,660
-	-	-	60,318	-	-	-	60,318
289,765	-	-	614,815	-	694,625	-	1,309,440
-	-	-	-	-	194,374	121,885	316,259
-	-	-	-	-	670,393	-	670,393
-	-	-	15,468	-	-	31,372	46,840
17	-	-	8,107	-	-	19,471	27,578
-	-	-	83,064	-	-	-	83,064
-	-	-	83,628	-	-	16,987	100,615
-	-	-	12,960	-	20,411	-	33,371
122	1,564,231	-	2,360,408	-	394	3,121,892	5,482,694
-	-	-	11,780	-	3,177	14,342	29,299
-	-	12,040	12,040	-	-	-	12,040
-	-	806,728	806,728	-	-	-	806,728
$ 21,055,386	$ 1,564,231	$ 818,768	$ 36,375,847	$ 35,237	$ 3,089,162	$ 5,938,860	$ 45,439,106
$ 377,785	$ -	$ -	$ 1,066,381	$ 40	$ 3,117	$ 114,074	$ 1,183,612
-	-	-	47,091	-	29,139	-	76,230
7,970	-	-	88,118	-	-	23,073	111,191
-	-	-	94	-	-	36,377	36,471
-	-	-	22,416	-	-	-	22,416
-	-	-	50,913	-	-	-	50,913
-	-	-	551,660	-	-	-	551,660
13,702	-	-	25,407	-	-	-	25,407
-	-	-	25,698	-	-	-	25,698
-	-	-	115,092	-	-	58,358	173,450
-	-	-	42,421	-	-	-	42,421
-	-	-	5,599	-	-	64,991	70,590
13,111	-	-	13,111	-	-	-	13,111
6,808	-	-	6,808	-	-	-	6,808
303,813	-	-	303,813	-	-	-	303,813
867	-	-	2,631	4,259	1,646	147,784	156,320
1,571,671	-	-	5,588,967	-	297,307	146,403	6,032,677
-	-	-	-	-	-	124,313	124,313
-	-	-	-	167	-	-	167
-	-	-	3,201	-	-	-	3,201
-	-	109,340	111,208	-	-	-	111,208
-	-	4,412	4,545	-	-	-	4,545
-	-	-	62,762	-	-	-	62,762
-	-	-	60,318	-	-	-	60,318
-	-	705,016	1,701,023	-	2,320,945	1,174,948	5,196,916
2,295,727	-	818,768	9,899,277	4,466	2,652,154	1,890,321	14,446,218
-	1,564,231	-	1,564,231	-	-	1,953,243	3,517,474
-	-	-	29,657	-	-	-	29,657
-	-	-	68,319	-	-	-	68,319
-	-	-	164,532	-	437,008	-	601,540
16,455,669	-	-	18,224,245	10,102	-	409,069	18,643,416
-	-	-	-	-	-	842,440	842,440
-	-	-	-	-	-	843,787	843,787
2,805	-	-	977,052	-	-	-	977,052
664,209	-	-	3,191,929	-	-	-	3,191,929
1,636,776	-	-	2,256,605	20,669	-	-	2,277,274
18,759,659	1,564,231	-	26,476,570	30,771	437,008	4,048,539	30,992,888
$ 21,055,386	$ 1,564,231	$ 818,768	$ 36,375,847	$ 35,237	$ 3,089,162	$ 5,938,860	$ 45,439,106

State of Indiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balances All Governmental Fund Types, Expendable Trust Funds, and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2000

(amounts expressed in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)	Governmental	(Memorandum Only)
Revenues:								
Taxes	$ 8,113,160	$ 2,973,843	$ -	$ 15,311	$ 298,220	$ 11,400,534	$ -	$ 11,400,534
Licenses, permits and franchises	20,306	386,834	-	-	-	407,140	-	407,140
Current service charges	161,836	487,733	-	140	-	649,709	128	649,837
Investment income	386,544	118,184	1,072	41,148	133,725	680,673	1,395	682,068
Sales/rents	761	65,894	-	-	-	66,655	14	66,669
Member contributions	-	-	-	-	52,025	52,025	-	52,025
Grants	9,808	4,731,663	-	8,346	9,599	4,759,416	-	4,759,416
Donations/escheats	-	3,745	-	-	24,022	27,767	-	27,767
Other	8,904	218,191	8	934	-	228,037	-	228,037
Total revenues	8,701,319	8,986,087	1,080	65,879	517,591	18,271,956	1,537	18,273,493
Expenditures:								
Current:								
General government	1,847,518	1,828,575	-	-	2,164	3,678,257	-	3,678,257
Public safety	550,897	439,097	-	-	-	989,994	-	989,994
Health	127,727	170,315	-	-	-	298,042	-	298,042
Welfare	353,440	4,794,555	-	-	4,360	5,152,355	-	5,152,355
Conservation, culture and development	68,381	411,425	-	-	283,641	763,447	3,950	767,397
Education	5,166,636	567,226	-	-	-	5,733,862	-	5,733,862
Transportation	6,982	1,246,870	-	-	-	1,253,852	-	1,253,852
Member withdrawals	-	-	-	-	19,168	19,168	-	19,168
Other	1,083	-	-	-	-	1,083	-	1,083
Capital outlays	-	-	-	178,099	-	178,099	-	178,099
Loss on reimbursement agreement	-	-	-	-	-	-	333	333
Debt service	-	-	55,328	-	-	55,328	-	55,328
Total expenditures	8,122,664	9,458,063	55,328	178,099	309,333	18,123,487	4,283	18,127,770
Excess (deficiency) of revenues over (under) expenditures	578,655	(471,976)	(54,248)	(112,220)	208,258	148,469	(2,746)	145,723
Other financing sources (uses):								
Operating transfers in	1,991,124	4,011,520	55,703	364,262	2,419	6,425,028	-	6,425,028
Operating transfers (out)	(2,779,518)	(3,258,712)	(121)	(264,705)	(31,454)	(6,334,510)	-	(6,334,510)
Operating transfers in – from primary government	-	-	-	-	-	-	13,478	13,478
Operating transfers in – from component unit	-	2,400	-	-	1,724	4,124	-	4,124
Operating transfers (out) – to component unit	(13,478)	-	-	-	-	(13,478)	-	(13,478)
Proceeds from capital leases	1,926	803	-	-	-	2,729	-	2,729
Total other financing sources (uses)	(799,946)	756,011	55,582	99,557	(27,311)	83,893	13,478	97,371
Excess of revenues and other financing sources over (under) expenditures and other uses	(221,291)	284,035	1,334	(12,663)	180,947	232,362	10,732	243,094
Fund balances, July 1, as restated	3,440,576	1,869,753	10,706	517,722	1,941,517	7,780,274	20,039	7,800,313
Fund balances, June 30	$ 3,219,285	$ 2,153,788	$ 12,040	$ 505,059	$ 2,122,464	$ 8,012,636	$ 30,771	$ 8,043,407

The notes to the financial statements are an integral part of this statement.

State of Indiana

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis Variances with GAAP)

General Fund

For the Year Ended June 30, 2000

(amounts expressed in thousands)

	Budget		Actual	Variance
	Original	Final		
Revenues:				
Tax	$ 7,451,408	$ 7,451,408	$ 8,105,120	$ 653,712
Licenses	20,090	20,090	20,306	216
Current service charges	133,139	133,139	161,836	28,697
Investment income	170,000	170,000	229,383	59,383
Sales	-	-	603	603
Grants	67,900	67,900	10,779	(57,121)
Other	2,700	2,700	8,904	6,204
Total revenues	7,845,237	7,845,237	8,536,931	691,694
Expenditures:				
General government	2,343,462	2,140,846	1,689,882	450,964
Public safety	629,880	649,222	554,665	94,557
Health	126,261	136,520	125,677	10,843
Welfare	349,570	392,196	349,002	43,194
Conservation, culture and development	91,075	170,475	67,751	102,724
Education	5,191,074	5,242,266	5,168,314	73,952
Transportation	1,145	11,588	6,023	5,565
Total expenditures	8,732,467	8,743,113	7,961,314	781,799
Excess of revenues over (under) expenditures	(887,230)	(897,876)	575,617	1,473,493
Other financing sources (uses):				
Total other financing sources (uses)	(980,168)	(980,168)	(801,872)	178,296
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ (1,867,398)	$ (1,878,044)	(226,255)	$ 1,651,789
Fund balances July 1, as restated			2,965,833	
Fund balances June 30			$ 2,739,578	

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis Variances with GAAP)
Special Revenue Fund Types
For the Year Ended June 30, 2000
(amounts expressed in thousands)

	Budget Original	Budget Final	Actual	Variance
Revenues:				
Tax	$ 2,751,409	$ 2,751,409	$ 2,932,368	$ 180,959
Licenses	365,502	365,502	386,833	21,331
Current service charges	398,245	398,245	492,868	94,623
Investment income	14,282	14,282	24,777	10,495
Sales	12,224	12,224	13,245	1,021
Grants	3,956,615	3,956,615	4,378,950	422,335
Donations	1,898	1,898	3,750	1,852
Other	163,880	163,880	199,039	35,159
Total revenues	7,664,055	7,664,055	8,431,830	767,775
Expenditures:				
General government	1,811,295	1,837,766	1,730,552	107,214
Public safety	483,494	483,395	405,774	77,621
Health	155,599	177,160	164,026	13,134
Welfare	4,786,536	4,787,147	4,535,020	252,127
Conservation, culture and development	464,772	487,111	389,478	97,633
Education	573,365	577,960	567,482	10,478
Transportation	1,235,740	1,251,176	1,244,545	6,631
Total expenditures	9,510,801	9,601,715	9,036,877	564,838
Excess of revenues over (under) expenditures	(1,846,746)	(1,937,660)	(605,047)	1,332,613
Other financing sources (uses):				
Total other financing sources (uses)	621,742	621,742	777,421	155,679
Excess of revenues and other financing sources over (under) expenditures and other financing uses	$ (1,225,004)	$ (1,315,918)	172,374	$ 1,488,292
Fund balances July 1, as restated			1,410,988	
Fund balances June 30			$ 1,583,362	

The notes to the financial statements are an integral part of this statement.

State of Indiana

Combined Statement of Revenues, Expenses and Changes in Retained Earnings (or Equity)
All Proprietary Fund Types, Nonexpendable Trust Funds and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2000

(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
Operating revenues:						
Sales/rents/premiums	$ 607,625	$ 52,672	$ -	$ 660,297	$ -	$ 660,297
Toll receipts	85,655	-	-	85,655	-	85,655
Charges for services	-	96,885	-	96,885	-	96,885
Interest on program loans	-	-	6,350	6,350	59,446	65,796
Investment income	-	-	-	-	57,595	57,595
Insurance premiums	-	96,374	-	96,374	-	96,374
Other	1,168	1,209	-	2,377	11,464	13,841
Total operating revenues	694,448	247,140	6,350	947,938	128,505	1,076,443
Cost of sales	408,447	17,098	-	425,545	-	425,545
Gross Margin	286,001	230,042	6,350	522,393	128,505	650,898
Operating expenses:						
General and administrative expense	69,413	70,050	28,443	167,906	27,380	195,286
Claims expense	1,893	-	-	1,893	-	1,893
Health / disability benefit payments	-	100,983	-	100,983	-	100,983
Death settlements	-	554	-	554	-	554
Medical expense reimbursement	-	385	-	385	-	385
Depreciation and amortization	12,061	18,077	-	30,138	3,236	33,374
Other	191	-	-	191	832	1,023
Total operating expenses	83,558	190,049	28,443	302,050	31,448	333,498
Operating income (loss)	202,443	39,993	(22,093)	220,343	97,057	317,400
Nonoperating revenues (expenses):						
Interest and other investment income (expense)	(4,980)	(32,489)	6,564	(30,905)	(99,068)	(129,973)
Gain (loss) on disposition of assets	-	78	-	78	-	78
Other	(350)	24	-	(326)	(1)	(327)
Total nonoperating revenues (expenses)	(5,330)	(32,387)	6,564	(31,153)	(99,069)	(130,222)
Income (loss) before operating transfers	197,113	7,606	(15,529)	189,190	(2,012)	187,178
Operating transfers in	-	19,372	47,087	66,459	-	66,459
Operating transfers (out)	(164,405)	(20,674)	(1,897)	(186,976)	-	(186,976)
Operating transfers (out) - to primary government	-	-	-	-	(4,124)	(4,124)
Net operating transfers	(164,405)	(1,302)	45,190	(120,517)	(4,124)	(124,641)
Net income (loss)	32,708	6,304	29,661	68,673	(6,136)	62,537
Retained earnings/fund balances, July 1, as restated	146,523	47,316	421,430	615,269	443,144	1,058,413
Retained earnings/fund balances, June 30	$ 179,231	$ 53,620	$ 451,091	$ 683,942	$ 437,008	$ 1,120,950

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Cash Flows
All Proprietary Fund Types, Nonexpendable Trust Funds and Similar Discretely Presented Component Units
For the Fiscal Year Ended June 30, 2000

(amounts expressed in thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Totals Primary Government	Component Units	Totals Reporting Entity
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)	Proprietary Fund Types	(Memorandum Only)
Cash flows from operating activities:						
Operating income (loss)	$ 202,443	$ 39,993	$ (22,093)	$ 220,343	$ 97,057	$ 317,400
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:						
Depreciation/amortization expense	12,061	18,077	-	30,138	3,236	33,374
Other provisions	(7,335)	(1,712)	-	(9,047)	(220)	(9,267)
(Increase) decrease in accounts receivable	14,143	(1,722)	-	12,421	-	12,421
(Increase) decrease in interest receivable	-	-	2,262	2,262	(4,255)	(1,993)
(Increase) decrease in intergovernmental loans	-	-	-	-	(306,165)	(306,165)
(Increase) decrease in student loans	-	-	-	-	52,495	52,495
(Increase) decrease in mortgage loans	-	-	-	-	(99,500)	(99,500)
(Increase) decrease in due from other funds	-	1,771	-	1,771	-	1,771
(Increase) decrease in inventory	(241)	1,154	-	913	-	913
(Increase) decrease in prepaid expenses	(50)	1,001	-	951	-	951
(Increase) decrease in other assets	-	-	-	-	167	167
Increase (decrease) in benefits payable	-	12,648	-	12,648	-	12,648
Increase (decrease) in accounts payable	(619)	(657)	-	(1,276)	1,052	(224)
Increase (decrease) in accrued interest payable	-	-	-	-	1,773	1,773
Increase (decrease) in deferred revenue	154	(398)	-	(244)	(15)	(259)
Increase (decrease) in salaries payable	(1,401)	175	-	(1,226)	-	(1,226)
Increase (decrease) in compensated absences	-	75	-	75	-	75
Increase (decrease) in due to other funds	-	(131)	-	(131)	-	(131)
Increase (decrease) in accrued prize liability	(9,037)	-	-	(9,037)	-	(9,037)
Increase (decrease) in compensated absences	47	-	-	47	-	47
Increase (decrease) in other liabilities	(467)	(140)	-	(607)	456	(151)
Net cash provided (used) by operating activities	209,698	70,134	(19,831)	260,001	(253,919)	6,082
Cash flows from noncapital financing activities:						
Operating transfers in	-	19,372	47,087	66,459	-	66,459
Operating transfers (out)	(172,360)	(20,674)	(1,897)	(194,931)	(4,124)	(199,055)
Issuance of intergovernmental loans	-	-	(60,382)	(60,382)	-	(60,382)
Proceeds from intergovernmental loans	-	-	90,214	90,214	-	90,214
Interest, debt issue costs	-	-	-	-	(120,541)	(120,541)
Proceeds from issuance of debt	-	-	-	-	852,077	852,077
Principal payments - bonds / notes	-	-	-	-	(651,475)	(651,475)
Net cash provided (used) by noncapital financing activities	(172,360)	(1,302)	75,022	(98,640)	75,937	(22,703)
Cash flows from capital and related financing activities						
Acquisition/construction of fixed assets	(30,670)	(69,856)	-	(100,526)	-	(100,526)
Proceeds from sale of fixed assets	-	325	-	325	-	325
Proceeds from issuance of long-term debt	500	256,293	-	256,793	-	256,793
Principal payments -- capital leases	(362)	(224)	-	(586)	-	(586)
Principal payments -- bonds/notes	(10,253)	(143,120)	-	(153,373)	-	(153,373)
Interest, debt issue costs	(16,244)	(35,933)	-	(52,177)	-	(52,177)
Net cash provided (used) by capital and related financing activities	(57,029)	7,485	-	(49,544)	-	(49,544)
Cash flows from investing activities:						
Proceeds from sale of investments	816,041	111,860	439,066	1,366,967	564,241	1,931,208
Purchase of investments	(729,730)	(176,070)	(483,172)	(1,388,972)	(359,173)	(1,748,145)
Interest income on investments	14,730	4,352	6,564	25,646	18,442	44,088
Net cash provided (used) by investing activities	101,041	(59,858)	(37,542)	3,641	223,510	227,151
Net increase (decrease) in cash and cash equivalents	81,350	16,459	17,649	115,458	45,528	160,986
Cash and cash equivalents, July 1	97,353	47,950	44,016	189,319	100,630	289,949
Cash and cash equivalents, June 30	$ 178,703	$ 64,409	$ 61,665	$ 304,777	$ 146,158	$ 450,935
Reconciliation of cash, cash equivalents and investments:						
Cash and cash equivalents at end of year	$ 178,703	$ 64,409	$ 61,665	$ 304,777	$ 146,158	$ 450,935
Investments	161,450	168,345	119,652	449,447	466,589	916,036
Other funds presented on balance sheet (trust and agency)	-	-	18,532,122	18,532,122	-	18,532,122
Cash, cash equivalents and investments per balance sheet	$ 340,153	$ 232,754	$ 18,713,439	$ 19,286,346	$ 612,747	$ 19,899,093
Noncash investing, capital and financing activities:						
Reduction of advance	184	-	-	184	-	184

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Changes in Plan Net Assets
Pension Trust Funds
For the Fiscal Year Ended June 30, 2000
(amounts expressed in thousands)

Additions:	
Member contributions	$ 240,479
Employer contributions	931,894
Net investment income	1,063,839
Operating transfers in	32,804
Other	1,675
Total additions	2,270,691
Deductions:	
Pension benefits	837,142
Disability and other benefits	23,428
Refunds of contributions and interest	36,300
Administrative	13,000
Operating transfers out	2,805
Other	23
Total deductions	912,698
Net increase (decrease)	1,357,993
Net assets held in trust for pension benefits, July 1, as restated	14,828,111
Net assets held in trust for pension benefits, June 30	**$ 16,186,104**

The notes to the financial statements are an integral part of this statement.

State of Indiana
Combined Statement of Changes in Fund Balances
Discretely Presented Component Units - Colleges and Universities
For the Fiscal Year Ended June 30, 2000
(amounts expressed in thousands)

	Current funds			
	Unrestricted	Restricted	Total current funds	Loan funds
Revenue and other additions:				
Current fund revenues	$ 2,384,428	$ 2,978	$ 2,387,406	$ -
Grants, gifts and contracts	3,782	614,055	617,837	119,731
Appropriations	98,825	92,429	191,254	-
Additions to plant and facilities	-	-	-	-
Retirement of indebtedness	-	-	-	-
Endowment and investment income	4,815	11,765	16,580	2,544
Bond proceeds	-	-	-	-
Sales and services	-	13,763	13,763	192
Auxiliary services	459,632	-	459,632	-
Other additions	731	14,250	14,981	677
Total revenues and other additions	2,952,213	749,240	3,701,453	123,144
Expenditures and other deductions:				
Current fund expenditures	2,366,912	442,979	2,809,891	-
Restricted fund expenditures	-	264,492	264,492	-
Indirect costs recovered	-	30,637	30,637	-
Direct student loans issued	-	-	-	114,659
Loan cancellations and administration	-	-	-	4,931
Administration	-	-	-	405
Expended for plant facilities and disposals	-	-	-	-
Bond issues and issuance costs, retirements	-	-	-	-
Debt service requirements	-	-	-	-
Depreciation and amortization	-	-	-	-
Other deductions	676	1,475	2,151	506
Auxiliary services	317,538	-	317,538	-
Total expenditures and deductions	2,685,126	739,583	3,424,709	120,501
Excess of revenues and other additions over (under) expenditures and other deductions	267,087	9,657	276,744	2,643
Transfers from (to) other funds:				
Mandatory transfers	(140,261)	5,804	(134,457)	32
Non-mandatory transfers	(93,480)	11,962	(81,518)	430
Total transfers from / to other funds	(233,741)	17,766	(215,975)	462
Net increase (decrease) for the year	33,346	27,423	60,769	3,105
Fund balance, July 1, as restated	528,115	128,868	656,983	56,685
Fund balance, June 30	$ 561,461	$ 156,291	$ 717,752	$ 59,790

The notes to the financial statements are an integral part of this statement.

	Plant funds					
Endowments and similar funds	Unexpended	Renewal and replacement	Retirement of indebtedness	Investment in plant	Total plant funds	Total colleges and universities
$ -	$ -	$ -	$ 2,864	$ -	$ 2,864	$ 2,390,270
17,127	22,520	207	373	1,711	24,811	779,506
-	60,580	3,829	-	-	64,409	255,663
-	8,290	-	-	329,274	337,564	337,564
-	2,361	-	-	110,893	113,254	113,254
53,133	16,151	3,131	1,517	-	20,799	93,056
-	46,180	-	-	-	46,180	46,180
-	-	-	-	-	-	13,955
-	-	-	-	-	-	459,632
475	19,914	807	9,360	41	30,122	46,255
70,735	175,996	7,974	14,114	441,919	640,003	4,535,335
-	-	-	-	-	-	2,809,891
-	-	-	-	-	-	264,492
-	-	-	-	-	-	30,637
-	-	-	-	-	-	114,659
-	-	-	-	-	-	4,931
1,684	11,854	6,638	591	-	19,083	21,172
-	286,340	27,935	-	11,061	325,336	325,336
-	142	-	49,343	69,827	119,312	119,312
-	2,296	-	88,673	-	90,969	90,969
-	-	-	-	211,411	211,411	211,411
11,957	1,403	215	257	41	1,916	16,530
-	-	-	-	-	-	317,538
13,641	302,035	34,788	138,864	292,340	768,027	4,326,878
57,094	(126,039)	(26,814)	(124,750)	149,579	(128,024)	208,457
(89)	(696)	3,960	130,345	-	133,609	(905)
(15,720)	116,813	19,197	(6,754)	(31,687)	97,569	761
(15,809)	116,117	23,157	123,591	(31,687)	231,178	(144)
41,285	(9,922)	(3,657)	(1,159)	117,892	103,154	208,313
797,754	170,123	238,591	38,557	1,881,533	2,328,804	3,840,226
$ 839,039	$ 160,201	$ 234,934	$ 37,398	$ 1,999,425	$ 2,431,958	$ 4,048,539

State of Indiana
Combined Statement of Current Fund Revenues, Expenditures and Other Changes
Discretely Presented Component Units - Colleges and Universities
For the Fiscal Year Ended June 30, 2000

(amounts expressed in thousands)

	Current funds		
	Unrestricted	Restricted	Total current funds
Revenues:			
Student tuition and fees	$ 908,947	$ 2,978	$ 911,925
Governmental appropriations	1,167,091	66,801	1,233,892
Federal, state and local grants and contracts	49,989	498,517	548,506
Auxiliary services	486,722	-	486,722
Sales and services	123,101	13,966	137,067
Investment and endowment income	50,050	10,801	60,851
Other gifts and grants	1,762	46,418	48,180
Other revenue	163,822	15,910	179,732
Total revenues	2,951,484	655,391	3,606,875
Expenditures and mandatory transfers:			
Educational and General:			
Instruction and departmental research activities	1,129,666	74,680	1,204,346
Research	58,384	235,701	294,085
Academic support	244,105	27,293	271,398
Operation and maintenance of plant	237,622	178	237,800
Student Aid, Scholarships and fellowships	84,763	153,431	238,194
Public service	51,914	171,589	223,503
Student services	108,148	3,435	111,583
Administrative and institutional support	241,190	1,630	242,820
Other expenditures	19,683	1,131	20,814
Total educational and general	2,175,475	669,068	2,844,543
Auxiliary enterprises:			
Expenditures	508,977	171	509,148
Mandatory transfers	131,838	(5,804)	126,034
Total current fund expenditures and mandatory transfers	2,816,290	663,435	3,479,725
Other transfers and additions (deductions):			
Excess (deficit) of restricted receipts over transfers to revenues	-	23,652	23,652
Transfers from (to) other funds	(101,848)	11,815	(90,033)
Total other transfers and additions (deductions)	(101,848)	35,467	(66,381)
Increase (decrease) in fund balance	$ 33,346	$ 27,423	$ 60,769

The notes to the financial statements are an integral part of this statement.

STATE OF INDIANA

Notes to the Financial Statements and Required Supplementary Information
June 30, 2000

STATE OF INDIANA
Notes to the Financial Statements
June 30, 2000
(schedule amounts are expressed in thousands)

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government (State of Indiana) and its component units (entities for which the government is considered to be financially accountable). Blended component units, although legally separate entities, are in substance part of the government's operations; data from these units are combined with data of the primary government. Discretely presented component units are reported in three separate columns, one column for the governmental fund type, one for proprietary fund types, and one for colleges and universities, in the combined financial statements. This is to emphasize that, as well as legally separate from the government, they also provide services to and benefit local governments and/or the citizens of the State of Indiana. Of the component units, the Housing Finance Authority has a December 31, 1999 year end.

Blended Component Units.

The following are blended component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. Although they are legally separate from the State, the units are reported as if they were part of the State because they provide services entirely or almost entirely to the State. All of these component units are audited by auditors other than the State Board of Accounts.

The Indiana Transportation Finance Authority (ITFA) was established to include the construction, reconstruction and improvement of all toll roads, toll bridges, state highways, bridges, and streets and roads. The Authority was further authorized to finance improvements related to an airport or aviation-related property or facilities including the acquisition of real property. The Authority is reported in various governmental funds and an enterprise fund.

The Recreational Development Commission was created to provide funds for projects involving the Department of Natural Resources' (DNR) properties. The five member commission includes the Treasurer of State, Director of DNR and three governor appointees. The Commission is reported as an internal service fund.

The State Lottery Commission of Indiana is composed of five members appointed by the governor. Net proceeds from the Lottery are distributed to the State to be used to supplement teachers' retirement, pension relief, and the Build Indiana Fund. A portion of the Build Indiana Fund is then used to supplement Motor Vehicle Excise Tax Replacement. The Commission is reported as an enterprise fund.

The State Office Building Commission was created to issue revenue bond debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to construct certain correctional facilities. The Commission is reported as an internal service fund.

Discretely Presented Component Units.

The following are discretely presented component units of the State of Indiana. The primary government appoints a voting majority of their boards and is able to impose its will. All component units, except colleges and universities, are audited by outside auditors.

The Indiana Development Finance Authority (IDFA) provides job-creating industrial development projects with access to capital markets where adequate financing is otherwise unavailable. The Authority is reported as a governmental fund.

The Indiana Secondary Market for Education Loans, Inc. (ISM) was formed at the request of the governor to purchase education loans in the secondary market. The unit is reported as a proprietary fund.

The Indiana Board for Public Depositories was established to ensure the safekeeping and prompt payment of all public funds deposited in Indiana banks. The Board, consisting of the Governor, Treasurer of State, Auditor of State, Chairman of the Commission for Financial Institutions, State Examiner of the State Board of Accounts and four members appointed by the Governor, provides insurance on public funds in excess of the $100,000 Federal

Deposit Insurance Corporation limit. The unit is reported as a proprietary fund.

The Indiana Bond Bank, created in 1984, is controlled by a board composed of the Treasurer of State, Director of the Department of Financial Institutions and five appointees of the governor. The Bond Bank issues debt obligations and invests the proceeds in various projects of state and local governments. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority was created in 1978 for the purpose of financing residential housing for persons and families of low and moderate incomes. The Authority consists of the Director of the Department of Financial Institutions, the Director of the Department of Commerce, the State Treasurer and four persons appointed by the governor. The unit is reported as a proprietary fund.

The Indiana Housing Finance Authority and the Indiana Bond Bank were determined to be significant for note disclosure purposes involving the discretely presented proprietary component units.

Each of the seven colleges and universities included in this report was established by individual legislation to provide higher education opportunities to the citizens of Indiana. The authority to administer the operations of each institution is granted to a separate board of trustees for each of the seven institutions. The number and makeup of the board of trustees of each college and university is prescribed by legislation specific for that institution. Four universities have nine member boards; two have ten member boards; Indiana Vocational Technical College has a thirteen-member board of trustees. Appointments to the boards of trustees are made by the governor and by election of the alumni of the respective universities. Purdue University and Indiana University were determined to be significant for note disclosure purposes involving the colleges and universities.

The financial statements of the individual component units may be obtained from their administrative offices as follows:

Indiana Transportation Finance Authority
One North Capital Suite 320
Indianapolis, IN 46204

Recreational Development Commission
Government Center South, W256
402 W. Washington Street
Indianapolis, IN 46204

State Lottery Commission of Indiana
Pan Am Plaza
201 S. Capitol, Suite 1100
Indianapolis, IN 46225

State Office Building Commission
Government Center South, W478
402 W. Washington Street
Indianapolis, IN 46204

Indiana Development Finance Authority
One North Capitol, Suite 320
Indianapolis, IN 46204-2226

Secondary Market for Education Loans, Inc.
8425 Woodfield Crossing Boulevard
Suite 401
Indianapolis, IN 46204

Board for Public Depositories
101 W. Washington St., Suite 1301E
Indianapolis, IN 46204

Indiana Bond Bank
2980 Market Tower
10 West Market St.
Indianapolis, IN 46204

Indiana Housing Finance Authority
115 West Washington Street
Suite 1350, South Tower
Indianapolis, IN 46204

Accounting Services
1062 Freehafer Hall
Purdue University
West Lafayette, IN 47907-1062

Richard W. Schmidt
Vice President - Business Affairs
University of Southern Indiana
8600 University Boulevard
Evansville, IN 47712

Office of the Vice President and Chief Financial Officer
Bryan Hall, Rm. 204
Indiana University
Bloomington, IN 47405-1202

Mark Husk
Director of Budgeting and Accounting
Indiana Vocational Technical College
Indianapolis, IN 46206-1763

Phillip Rath
Vice President-Financial Services
Vincennes University
1002 North 1st Street
Vincennes, IN 47591

William A. McCune, Controller
Administration Bldg., 103A
2600 University Avenue
Ball State University
Muncie, IN 47305

Office of the Vice President for Planning and Budgets
Parsons Hall, RM. 223
Indiana State University
Terre Haute, IN 47809

B. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the government are organized and operated on the basis of funds and account groups. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds.

The government has the following fund types and account groups:

Governmental funds are used to account for the government's general government activities. Governmental fund types use the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and related liabilities, and claims and judgments which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Individual gross income taxes, corporation income taxes, sales taxes, motor fuel and motor carrier surcharge taxes, and alcoholic beverage taxes collected within 30 days after the end of the fiscal year are susceptible to accrual. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and assistance awards are recorded at the time of receipt or earlier if the "susceptible to accrual" criteria is met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Governmental funds include the following fund types:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue* funds account for revenue sources that are legally restricted to expenditure for specific purposes (not expendable trusts or major capital projects).

The *debt service* fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds.

The *capital projects* funds account for the acquisition of fixed assets or construction of major capital projects not being financed by proprietary or nonexpendable trust funds.

Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The government applies all applicable FASB pronouncements issued before November 30, 1989 and those issued after which do not contradict any previously issued GASB pronouncement in accounting and reporting for its proprietary operations. Proprietary funds include the following fund types:

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Internal service funds account for operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fiduciary funds account for assets held by or on behalf of the government in a trustee capacity or as an agent on behalf of others.

The *expendable trust funds* are accounted for in essentially the same manner as the governmental fund types, using the same measurement focus and basis of accounting. Expendable trust funds account for assets where both the principal and interest may be spent.

The *nonexpendable trust funds* and *pension trust funds* are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting. Nonexpendable trust funds account for assets of which the principal may not be spent. The pension trust fund accounts for the assets of the government's employees pension plan.

The *agency funds* are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Account Groups. The *general fixed assets account group* is used to account for fixed assets not accounted for in proprietary or trust funds. The *general long-term debt account group* is used to account for general long-term debt and certain other liabilities that are not specific liabilities of proprietary or trust funds.

C. Assets, Liabilities and Equity

1. Deposits, Investments and Securities Lending

For purposes of reporting cash flows, cash and cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash and near their maturity (generally three months or less from the date of acquisition). Cash and cash equivalents are stated at cost, which approximates fair value.

Cash balances of most State funds are commingled in general checking accounts and several special purpose banking accounts. The available cash balance not necessary beyond immediate need is pooled and invested. Interest earned from investments purchased with pooled cash is deposited in the general fund, except as otherwise provided by statute.

Investments and secured lending transactions are stated at fair value in accordance with GASB Statements 31 and 28. However, money market investments and participating interest-earning investment contracts that mature within one year of acquisition are reported at amortized cost. Fair value is determined by quoted market prices. In addition, the pension trust funds and securities lending transactions are stated at fair value in accordance with GASB Statements 25 and 28, respectively.

Indiana Code 5-13-9 authorizes the Treasurer to invest in deposit accounts issued or offered by a designated depository; securities backed by the full faith and credit of the United States Treasury; and repurchase agreements that are fully collateralized, as determined by the current market value computed on the day the agreement is effective, by interest-bearing obligations that are issued, fully insured or guaranteed by the United States or any U.S. government agency.

The Treasurer of State is authorized by statute to accept as collateral safekeeping receipts for securities from: (1) a duly designated depository or (2) a financial institution located either in or out of Indiana, having physical custody of securities, with a combined capital and surplus of at least $10 million, according to the last statement of condition filed by the financial institution with its governmental supervisory body. The Treasurer may not deposit aggregate funds in deposit accounts in any one designated depository in an amount aggregating at any one time more than 50 percent of the combined capital, surplus and undivided profits of that depository as determined by the last published statement.

Bond indentures of the Indiana Transportation Finance Authority authorize investments in obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, savings accounts, certificates of deposit (CDs) and repurchase agreements (repos) secured by government securities.

The State Office Building Commission trust indentures authorize obligations of the U.S. Treasury, U.S. government agencies and instrumentalities, tax exempt securities, new Housing Authority bonds, savings and CDs, repos and reverse repos secured by government securities, investment agreements and commercial paper. Indiana Code permits investment in shares of management type investment trusts provided those trusts invest in securities of the types specified above.

Money held in the trust fund of the State Lottery Commission for the deferred payment of prizes may be invested by the Treasurer of State in annuities sold by an insurance company licensed to do business in Indiana (A.M. Best rating of A or equivalent) or in direct U.S. Treasury obligations.

Investments of the Recreational Development Commission will be kept in depositories designated as depositories for funds of the State as selected by the Commission, in the manner provided by IC 5-13-9.

The investments of the State's retirement systems are governed by separate investment guidelines. Investments which are authorized for the State Teacher's Retirement Fund include: U.S. Treasury and Agency obligations, corporate bonds/notes, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances. Investments which are authorized for the State Police Retirement fund include: U.S. Treasury and Agency obligations, common stocks, repurchase agreements, mortgage securities, and bankers acceptances. The remaining six retirement systems and the Pension Relief Fund are administered by the Public

Employees' Retirement Fund Board. The Board is required to diversify investments in accordance with prudent investment standards. Investment guidelines, issued by the Board, contain limits and goals for each type of investment portfolio, and specify prohibited transactions. These guidelines authorized investments of: U.S. Treasury and Agency obligations, corporate bonds/notes, common stocks, repurchase agreements, mortgage securities, commercial paper, and bankers' acceptances.

Certain deposits of State funds are entrusted to an outside agent to invest and disburse as per federal requirements or contract. The State Revolving Fund is held by a fiscal agent and included as a special revenue fund.

2. *Receivables and Payables*

Certain taxes collected during the month of July are accrued. These taxes include employee withholding and other individual income taxes, corporate income tax, sales tax, alcoholic beverage tax, motor fuel and motor carrier surcharge tax, inheritance tax, financial institution tax, and employer contributions to the Unemployment Compensation fund.

Due dates are as follows:

> Sales, alcoholic beverage, gasoline and special fuel tax -- due by the 20th day after the end of the month collected.
>
> Corporate, motor fuel and motor carrier surcharge tax -- due on or before the last day of the month immediately following each quarter of the calendar year.
>
> Employee withholding tax -- depending on the amount of total withholding, due by the 20th day after the end of the month or quarterly.
>
> Individual income tax -- estimates due by the 15th of the month immediately following each quarter or the calendar year.
>
> Inheritance tax -- due eighteen months after the decedent's date of death.
>
> Financial institutions tax -- due on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year.
>
> Unemployment employers' contributions -- shall immediately become due and payable on the basis of wages paid or payable.

Tax refunds paid during the month of July are accrued as tax refunds payable as they are paid from current financial resources. These include individual, corporate and sales tax.

The State of Indiana does not collect property taxes, which are collected by local units of government; a minor portion is remitted to the state semiannually (June and December) for distribution to the State Fair Commission, Department of Natural Resources and Family and Social Services Administration.

3. *Interfund transactions*

The State has the following types of interfund transactions:

> Quasi-external Transactions - Charges for services rendered by one fund to another that are treated as revenues of the recipient fund and expenditures/expenses of the disbursing fund.
>
> Residual Equity Transfers - Nonroutine or nonrecurring transfers between funds are reported as additions to or deductions from fund equity.
>
> Operating Transfers - Legally authorized transfers other than residual equity transfers are reported as operating transfers.

The types of assets and liabilities resulting from these transactions are:

> Advances from / to - These are balances arising from the long-term portion of interfund transactions, including loans.
>
> Interfund receivables / payables - These are balances arising from the short-term portion of interfund transactions.
>
> Due from / to - These are balances arising in connection with quasi-external transactions or reimbursements. Balances relating to discretely presented component units are presented as 'Due from / to component units.'

4. *Inventories and Prepaid Items*

Inventories for the Inns & Concessions, State Lottery Commission, Institutional Industries and Administration Services Revolving are valued at cost; Toll Road inventories are valued at lower of cost or market. The costs of governmental fund-type inventories are recorded as expenditures when purchased. The first in/first out (FIFO) method is used for valuation of inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

5. Restricted Assets

Certain assets of the following proprietary funds are classified as restricted assets because their use is completely restricted by bond indentures, contracts or statute.

State Office Building Commission - designated for construction projects or the liquidation of revenue bonds payable.
Recreational Development Commission - designated for the costs of expanding and, renovating, and improving recreational facilities at Indiana State parks.
State Lottery Commission - reserved for the prize pool of the Multi-State Lottery Association.
Toll Roads - held for future debt service, transportation improvements and construction.
Indiana Housing Finance Authority - restricted or pledged as provided by bond resolutions and indentures of the trust agreements.
Indiana Bond Bank -- restricted to repayment of bonds and notes payable.

6. Fixed Assets

Fixed assets used in governmental fund types with a cost of $5,000 or greater are recorded in the general fixed assets account group at cost or estimated historical cost if purchased or constructed. Donated fixed assets are recorded at their estimated fair value at the date of donation. Assets in the general fixed assets account group are not depreciated. Interest incurred during construction is not capitalized on general fixed assets.

Public domain (infrastructure) general fixed assets (e.g., roads, bridges, highway land and other assets that are immovable and of value only to the government) are not capitalized.

The cost of normal maintenance and repairs that do not add to the value or materially extend the life of the asset are not included in the general fixed assets account group or capitalized in the proprietary funds.

Property, plant and equipment in the proprietary and pension trust funds are recorded at cost or estimated historical cost. Property, plant and equipment donated to proprietary funds are recorded at their estimated fair value at the date of donation. Capital grants to the Inns & Concessions (grants restricted by the grantor for the acquisition and/or construction of fixed assets) are recorded as contributed capital; since these contributions are from the primary government, depreciation expense for these assets is included with depreciation of other assets. Contributed capital is reduced by the cost of assets returned to the contributor.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund fixed assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Property, plant and equipment are depreciated in the proprietary and similar trust funds using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20-40
Improvements other than buildings	10-20
Furniture, machinery and equipment	3-10
Software	3
Motor Pool Vehicles	10 ¢ / mile

7. Compensated Absences

Full-time employees of the State of Indiana are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal leave accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty (30) unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. Vacation leave is accrued when incurred in proprietary funds and reported as a fund liability.

8. Long-Term Obligations

Long-term debt of governmental funds is reported at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Fund Equity

Reservations of fund balance represent those portions of fund balances that are legally segregated for a specific purpose or are not appropriable. In the accompanying balance sheet, reserves for encumbrances and tuition support are examples of the former. Reserves for intergovernmental loans and advances receivables are examples of the latter. The following is a brief description of each reserve and the purpose for which it was established:

Reserve for Tuition Support - established to recognize that the legislature has set aside money, as determined by the State Budget Agency, for paying the monthly distributions to local school units at the beginning of the succeeding fiscal year.

Reserve for Encumbrances - established to recognize money set aside out of one year's budget for goods and/or services ordered during that year that will not be paid for until they are received in a subsequent year.

Reserve for Prepaid Items – established to recognize payments made in advance of receipt of goods and services in an exchange transaction.

Reserve for Advances - established to recognize long-term loans and advances issued to other funds within this government and therefore not currently available for expenditure.

Reserve for Intergovernmental Loans - established to recognize that the legislature has set aside money to lend to local units of government for specific purposes. These amounts are loans to individual school corporations, cities, towns, counties and other governmental units. Additionally, the general fund lends money to nonprofit entities. All loans require review and approval of the Board of Finance prior to issuance.

Reserve for Debt Service, Special Purposes-- established to recognize that certain amounts have been set aside for debt service and for purposes specific to a particular component.

Designations of fund balance represent tentative management plans that are subject to change.

The proprietary funds' contributed capital represent equity acquired through capital grants and capital contributions from other funds.

10. Memorandum Only -- Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Legislation requires that the Governor submit a budget biennially to be adopted by the General Assembly for the ensuing two-year period. The budget covers the general fund and most special revenue funds, but excludes various special revenue funds that are not subject to appropriation pursuant to state law. Funds excluded are the Pension Relief Fund, the Transportation Finance Authority - Highway Revenue Bonds, and the State Revolving Fund. In addition there are various "Other Special Revenue Funds" excluded which are the Public Safety Death Benefit Fund, the Armory Board, the Recreation funds at state institutions and mental facilities, and the Transportation Finance Authority - Airport Facilities and Aviation Technology Funds. The General Assembly enacts the budget through passage of specific appropriations, the sum of which may not exceed estimated revenues. Appropriations for programs funded from special revenue funds may allow expenditures in excess of original appropriations to the extent that revenues collected exceed estimated revenues.

The original budget is composed of the budget bill and continuing appropriations. The budget bill is enacted as the Appropriations Act that the Governor may veto, subject to legislative override. Continuing appropriations report budgeted expenditures as equal to the amount of revenues received during the year plus any balances carried forward from the previous year as determined by statute. Except as specifically provided by statute, appropriations or any part thereof remaining unexpended and unencumbered at the close of any fiscal year will lapse and be returned to the fund from which it was appropriated.

The final budget is composed of budgeted amounts as adopted and as amended by supplemental appropriations or appropriation transfers that were necessary during the current year. The State Board of Finance, which consists of the Governor, Auditor of State and Treasurer of State, is empowered to transfer appropriations from one fund of the State to another, with the exception of trust funds. The State Budget Agency may transfer, assign, and reassign almost any appropriation, except those restricted by law; but only when the uses and purposes of the funds concur. Excess general fund revenue is used to cover non-budgeted recurring expenditures and overdrafts of budgeted amounts at the end of the current year. Capital appropriations are initially posted to general government. As projects are approved by the State Budget Committee the appropriations are transferred to the function of government from which they are disbursed. These actions are considered supplemental appropriations, therefore, expenditures do not exceed appropriations for individual funds.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is maintained at the fund level by the State Budget Agency. When budgets are submitted for each fund center, certain recurring expenditures are not budgeted (medical service payments, unemployment benefits, tort claims) according to instructions from the State Budget Agency to the various agencies. The Budget Agency monitors all fund centers regularly in addition to monitoring excess general fund revenue that will be available at the end of the fiscal year to cover the non-budgeted, recurring expenditures.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities. Funds encumbered in the prior year are carried forward in the ensuing year's budget. The availability of unencumbered funds in the subsequent year is dependent upon the legislative or administrative controls established when the fund center was originated.

B. Budget/GAAP Reconciliation

The cash basis of accounting (budgetary basis) is applied to each budget. The budgetary basis differs from GAAP. The major differences between budgetary (non-GAAP) basis and GAAP basis are:

	General Fund	Special Revenue Funds
Excess of revenues and other financing sources over (under) expenditures and other financing uses (budgetary basis)	$ (226,255)	172,374
Adjustments necessary to convert the results of operations on a budgetary basis to a GAAP basis are:		
Revenues are recorded when earned (GAAP) as opposed to when cash is received (budgetary)	2,181	(17,156)
Expenditures are recorded when the liability is incurred (GAAP) as opposed to when payment is made (budgetary)	2,783	5,898
Funds not subject to legally adopted budget	-	122,919
Excess of revenues and other financing sources over (under) expenditures and other financing uses (GAAP basis)	$ (221,291)	$ 284,035

C. Deficit Fund Balance/Retained Earnings

At June 30, 2000, various funds had deficit fund balance/retained earnings caused by temporary cash overdrafts from pooled cash and investments and the posting of accruals to the balance sheet. Temporary cash overdrafts are reported as an interfund payable to the general fund. An exception to this is the Bureau of Motor Vehicles Commission fund which has a deficit equity balance of $56.8 million. $53.2 million of this was caused by long-term expenditures in excess of fund revenues. The funds used to cover the $53.2 million deficit are reported as an Advance from the Motor Vehicle Highway Fund.

Fund	Overdraft from pooled cash	Accrual deficits
Special revenue funds:		
State and Federal Welfare Assistance	-	(3,104)
Medicaid Assistance	(5,719)	(208,135)
Health and Envimomental Programs	-	(1,413)
Internal service funds:		
State Office Building Commission	-	(1,152)
Recreational Development Commission	-	(160)
State Police Benefit Fund	-	(1,262)
State Employee Disability Fund	-	(2,533)
State Employee Health Insurance Fund		(1,743)
Expendable trust funds:		
Abandoned Property Fund	-	(3,206)

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments and Securities Lending

The deposits with financial institutions for the primary government and its discretely presented component units at year end were entirely insured by federal depository insurance, state depository insurance, or collateralized securities held by the State or by an agent in the State's name.

Investment are categorized into these three categories of credit risk: (1) Insured or registered, or securities held by the State (or its component unit) or an agent in the State's or unit's name. (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's or unit's name. (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's or unit's name.

Blended component units that are included in the financial statements as described in Section 1(A) account for $379.7 million of the primary government's total investments included in these totals.

Primary Government

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 41,511	$ 140,668	$ 136,978	$ 319,157
Corporate debt/equity securities				
Not on securities loan	10,616,949	159,110	424,539	11,200,598
On securities loan	-	134,754	49	134,803
Foreign bonds				
Not on securities loan	94,108	-	-	94,108
Repurchase agreements				
Not on securities loan	1,018	270,587	621,232	892,837
On securities loan	-	242,684	-	242,684
US Treasury & agency obligations				
Not on securities loan	1,665,826	586,501	382,355	2,634,682
On securities loan	19,932	153,035	430,706	603,673
Mortgage securities				
Not on securities loan	1,287,990	1,781	20,000	1,309,771
On securities loan	-	10,000	180	10,180
Totals	$ 13,727,334	$ 1,699,120	$ 2,016,039	17,442,493
Investments - not categorized				
Investments held by broker-dealers under securities loans				
Equity securities				443,386
Corporate bonds				178,698
US Treasury & agency obligations				4,807,282
Foreign bonds				9,753
Mortgage securities				7,289
Securities lending S-T cash collateral investment pool				3,845,928
Mutual funds				948,369
Annuity/investment contracts				502,118
Other				2,309
Total primary government				$ 28,187,625

The categories of investments for the Significant Discretely Presented Component Units is as follows:

Significant Discretely Presented Component Units

	Category 1	Category 2	Category 3	Fair Value
Commercial paper				
Not on securities loan	$ 27,882	$ -	$ -	$ 27,882
Corporate debt/equity securities				
Not on securities loan	352,298	4,084	-	356,382
Repurchase agreements				
Not on securities loan	30,200	2,378	-	32,578
On securities loan	122,555	-	-	122,555
US Treasury & agency obligations				
Not on securities loan	584,957	23,411	776	609,144
On securities loan	2,416	-	-	2,416
Totals	$ 1,120,308	$ 29,873	$ 776	1,150,957
Investments--Not Categorized				
Guaranteed investment contracts and other				136,377
Investments held by broker-dealers under securities loans				
Corporate bonds				12,187
US Treasury & agency obligations				23,360
Securities lending S-T cash collateral investment pool				36,315
Securities lending S-T non-cash collateral investment pool				103,425
Total significant discretely presented component units				$ 1,462,621

State statutes and policies permit the State to lend securities to broker-dealers and other entities (borrowers) for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The State's custodial banks manage the securities lending programs and receive securities or cash as collateral. The types of securities lent during the year may include U.S. Treasury and agency obligations, corporate bonds/notes, and foreign bonds. Collateral securities and cash are initially pledged at 102 percent of the market value of the securities lent. Generally, there are no restrictions on the amount of assets that can be lent at one time, except for the Public Employees Retirement Fund and the State Teachers Retirement Fund which allow no more than 40% be lent at one time. The collateral securities cannot be pledged or sold by the State unless the borrower defaults, but cash collateral may be invested. At year-end, the State had no credit risk exposure to a borrowers because the amount the State owes the borrowers exceed the amounts the borrowers owe the State. Cash collateral is generally invested in securities of a longer term with the mismatch of maturity's generally 0-15 days. The contracts with the State's custodians requires them to indemnify the funds if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the funds for income distributions by the securities' issuers while the securities are on loan.

B. Interfund Transactions

The composition of interfund balances as of June 30, 2000 is as follows:

Due From and Due To Other Funds

	Due from other funds	Due to other funds
General fund:		
Internal service funds:		
Institutional industries	$ 159	$ 1,322
Administrative services revolving fund	-	913
Total general fund	159	2,235
Special revenue funds:		
Debt service funds:		
Transportation Finance Authority:		
Aviation Technology bonds	-	318
Airport Facilities bonds	-	3,068
Internal service funds:		
Institutional industries	-	674
Administrative services revolving fund	-	4,217
Pension trust funds		
Public Employees Retirement Fund	-	951
Total special revenue funds	-	9,228
Debt service funds:		
Special revenue funds:		
Other	3,386	-
Total debt service funds	3,386	-
Internal service funds:		
General fund	2,235	159
Special revenue funds:		
County welfare administration	1,064	-
Motor Vehicle Highway Fund	1,145	8
State and Federal Welfare Assistance	6	-
Bureau of Motor Vehicles Commission	34	-
Health and environmental programs	54	-
State Highway Department	138	-
Patients Compensation	1	-
Other	2,448	-

	Due from other funds	Due to other funds
Internal service funds (continued):		
Capital projects funds:		
Post War Construction	1	-
Expendable trust funds:		
Abandoned Property Fund	1	-
Internal service funds:		
Administrative Services Revolving	3	3
Institutional Industries	3	3
Pension trust funds:		
Public Employees Retirement Fund	40	69
State Teachers Retirement Fund	79	-
Total internal service funds	7,252	242
Trust and agency funds:		
Special revenue funds		
Pension Relief	885	-
Other	66	-
Internal service funds:		
Institutional Industries	8	-
Administrative services revolving fund	-	120
State Employee Death Benefit	69	-
Pension trust:		
Public Employees' Retirement Fund	4,497	9,085
Teachers' Retirement Fund	4,951	4,497
1977 police officers' and firefighters'	2,993	-
Excise Police and Conservation Officers	335	-
Judges Retirement	452	-
Prosecuting Attorneys' Retirement	170	-
Defined Benefit	184	-
Total trust and agency funds	14,610	13,702
Total due from / to	**$ 25,407**	**$ 25,407**

Component units

	Due from primary government	Due to component unit
Special revenue funds:		
Discretely presented component units:		
Indiana Bond Bank	$ -	$ 551,660
Total special revenue funds	-	551,660

	Due from primary government	Due to component unit
Discretely presented component units:		
Special revenue funds:		
State Revolving Fund	551,660	-
Total discretely presented component units	551,660	-
Total due from / to	**$ 551,660**	**$ 551,660**

The composition of interfund balances as of June 30, 2000 is as follows: (continued)

Advances To and Advances From Other Funds

	Advances to other funds	Advances from other funds
General fund:		
Special revenue funds:		
Other	$ 2,408	$ -
Total general fund	2,408	-
Special revenue funds:		
General fund	-	2,408
Special revenue funds:		
Motor Vehicle Highway Fund	53,213	-
Bureau of Motor Vehicles Commission	-	53,213
Other	698	698
Internal service funds:		
Recreational Development Commission	500	-
Total special revenue funds	54,411	56,319
Capital projects funds:		
Enterprise funds:		
Toll bridges	2,334	865
Total capital projects funds	2,334	865

	Advances to other funds	Advances from other funds
Enterprise funds:		
Capital projects funds:		
Interstate Bridge Fund	865	2,334
Internal service funds:		
Recreational Development Commission	-	300
Total enterprise funds	865	2,634
Internal service funds:		
Special revenue funds:		
Other	-	500
Enterprise funds:		
Inns and concessions	300	-
Total internal service funds	300	500
Total advances	**$ 60,318**	**$ 60,318**

Interfund receivables and payables

	Interfund receivable	Interfund payable
General fund:		
Special revenue funds:		
Medicaid Assistance	$ 5,719	$ -
Federal Food Stamp Program	4,412	-
Total general fund	10,131	-
Special revenue funds:		
General fund	-	10,131
Enterprise funds:		
State Lottery Commission	7,500	-
Total special revenue funds	7,500	10,131
Capital projects funds:		
Enterprise funds:		
State Lottery Commission	25,782	-
Total capital projects funds	25,782	-

	Interfund receivable	Interfund payable
Enterprise funds:		
Special revenue funds:		
Pension Relief Fund	-	7,500
Capital projects funds:		
Build Indiana Fund	-	25,782
Pension trust funds:		
Teachers' Retirement Fund	-	7,500
Total enterprise funds	-	40,782
Trust and agency funds:		
Enterprise funds:		
State Lottery Commission	7,500	-
Total trust and agency funds	7,500	-
Total interfund receivable / payable	**$ 50,913**	**$ 50,913**

A summary of interfund operating transfers for the year ended June 30, 2000 is as follows:

	Operating transfers in	Operating transfers (out)	Operating transfers in - from primary government	Operating transfers (out) to primary government	Operating transfers in - from component units	Operating transfers (out) to component units	Net transfers
Governmental funds:							
General fund	$ 1,991,124	$ (2,779,518)	$ -	$ -	$ -	$ (13,478)	$ (801,872)
Special revenue funds	4,011,520	(3,258,712)	-	-	2,400	-	755,208
Debt service funds	55,703	(121)	-	-	-	-	55,582
Capital projects funds	364,262	(264,705)	-	-	-	-	99,557
Proprietary funds:							
Enterprise Funds	-	(164,405)	-	-	-	-	(164,405)
Internal Service Funds	19,372	(20,674)	-	-	-	-	(1,302)
Trust and agency funds:			-				
Expendable Trust and Agency	2,419	(31,454)	-	-	1,724	-	(27,311)
Non expendable Trust	47,087	(1,897)	-	-	-	-	45,190
Pension Trust	32,804	(2,805)	-	-	-	-	29,999
Discretely presented component units:							
Governmental	-	-	13,478	-	-	-	13,478
Proprietary	-	-	-	(4,124)	-	-	(4,124)
	$ 6,524,291	$ (6,524,291)	$ 13,478	$ (4,124)	$ 4,124	$ (13,478)	$ -

C. Taxes Receivable/Tax Refunds Payable

Taxes Receivable/Tax Refunds Payable as of year end, including the applicable allowances for uncollectible accounts, are as follows:

	General fund	Special revenue funds	Capital projects funds	Expendable trust	Total
Sales taxes	$ 179,996	$ 122,186	$ -	$ -	$ 302,182
Individual income taxes	388,117	-	-	-	388,117
Corporate taxes	47,287	-	-	-	47,287
Motor fuel taxes	-	58,791	-	-	58,791
Alcoholic beverage taxes	1,281	-	1,459	-	2,740
Motor carrier surcharge taxes	-	6,765	-	-	6,765
Inheritance taxes	30,870	-	-	-	30,870
Financial institution taxes	-	15,627	-	-	15,627
Unemployment - employers' contributions	-	-	-	20,147	20,147
Total taxes receivable	$ 647,551	$ 203,369	$ 1,459	$ 20,147	$ 872,526
Tax refunds payable	$ 25,696	$ 2	$ -	$ -	$ 25,698

D. Fixed Assets

Activity in the general fixed assets account group for the State for the year ended June 30, 2000, was as follows. Figures include assets with an individual cost of $5,000 or more. Infrastructure assets are not included.

	Balance, July 1, As restated	Additions	Deletions	Balance, June 30
Land	$ 124,072	$ 1,682	$ 173	$ 125,581
Buildings and improvements	1,052,743	11,047	9,254	1,054,536
Furniture, machinery, and equipment	375,156	31,669	22,711	384,114
Total general fixed assets	$ 1,551,971	$ 44,398	$ 32,138	$ 1,564,231

The following is a summary of proprietary fund type fixed assets at June 30, 2000. Infrastructure assets are included as they are presented on the respective balance sheets.

	Enterprise funds	Internal service funds
Buildings, land and improvements	$ 116,257	$ 689,507
Infrastructure	460,061	-
Furniture, machinery, and equipment	45,498	12,410
less: accumulated depreciation	(406,407)	(121,271)
Construction in progress	21,400	62,228
Total fixed assets	**$ 236,809**	**$ 642,874**

Fixed assets of the significant discretely presented component units include $2,697 million for Indiana University, less accumulated depreciation of $1,309 million; $1,573 million for Purdue University, less accumulated depreciation of $714 million.

E. Leases

Operating Leases
The State leases building and office facilities and other equipment under non-cancelable operating leases. Total payments for such leases with aggregate payments of $5,000 or more were $37.2 million for the year ended June 30, 2000. A table of future minimum lease payments (excluding executory costs) is presented below.

Capital Leases
The State has entered into various lease agreements with aggregate payments of $5,000 or more to finance the acquisition of buildings, land and equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the inception date in the general fixed assets account group. The related lease obligations are reported in the general long-term debt account group.

The future minimum lease obligations, the net present value of these minimum lease payments as of June 30, 2000 and the assets acquired through capital lease during the fiscal year were as follows:

Future minimum lease payments

		Capital leases	
Year ending June 30,	**Operating leases**	**General Long-Term Debt Account Group**	**Proprietary funds**
2001	$ 31,672	$ 1,777	$ 106
2002	25,229	1,355	69
2003	19,521	1,030	56
2004	12,614	467	16
2005	8,501	250	-
Thereafter	59,477	-	-
Total minimum lease payments (excluding executory costs)	**$ 157,014**	**$ 4,879**	**$ 247**
Less:			
Amount representing interest		(467)	(20)
Present value of future minimum lease payments		**$ 4,412**	**$ 227**
Assets acquired through capital lease			
Machinery and equipment		8,063	3,652
less accumulated depreciation		-	(3,432)
		$ 8,063	**$ 220**

The Indiana Housing Finance Authority, a discretely presented component unit, has future obligations under an operating lease which total $1.6 million.

Purdue University, a significant discretely presented component unit, also is the lessee for capital leases totaling $44.1 million, of which $12.2 million represents interest; Indiana University's liability for capital leases is $2.0 million , of which $.3 million represents interest.

Indiana University has future obligations under operating leases of $7.2 million.

F. Long-Term Debt

Long-term debt of the general long-term debt account group consists of revenue bond obligations of the Indiana Transportation Finance Authority Highway Revenue Bonds, Airport Facility Bonds, and Aviation Technology Bonds. Other long term obligations of the general long term debt account group include capital lease obligations of governmental funds as presented in Section III(E) and compensated absence obligations.

Long-term debt of the proprietary funds consists of revenue bonds issued by the State Office Building Commission, the Recreational Development Commission, and the Indiana Transportation Finance Authority Toll Roads. It also includes the non-current portion of prize liability accrued by the Indiana State Lottery Commission. These entities have been established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions.

Long-term debt of the significant discretely presented component units consists of bonds issued or backed by the Indiana Development Finance Authority, the Indiana Housing Finance Authority, the Indiana Bond Bank, Indiana University, and Purdue University. As with the entities in the proprietary funds, these entities have the separate legal authority to finance certain essential governmental functions.

Revenue bonds are issued by entities established by statute as corporate and politic units with the separate legal authority to finance certain essential governmental functions. Income from the acquired or constructed assets is used to pay debt service.

General Long-Term Debt Account Group:

Indiana Transportation Finance Authority (ITFA) Highway Revenue Bonds – In 1988 the Transportation Finance Authority was granted the power to construct, acquire, reconstruct, improve and extend Indiana highways, bridges, streets and roads (other than the East-West Toll Road) from proceeds of highway revenue bonds issued by the Authority. The bonds are paid solely from and secured exclusively by the pledge of revenues from leases to the Indiana Department of Transportation of completed highway revenue bond projects. Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On March 26, 1993, the Authority refunded a portion of their 1988A & B Series Bonds. The amount of defeased debt still outstanding, but removed from the General Long-Term Debt Account Group as of June 30, 2000, was $93.6 million.

On December 11, 1996, the Indiana Transportation Finance Authority issued Highway Refunding Bonds Series 1996B in the amount of $27,110,000 with interest rates from 3.85% to 6%. The refunding debt was used to refund the Series 1992A bonds. A portion of the proceeds was deposited in an escrow fund. As of June 30, 2000, the amount of defeased debt still outstanding but removed from the General Long Term Debt Group was $24.8 million.

Indiana Transportation Finance Authority (ITFA) Airport Facilities Revenue Bonds – In 1991, the General Assembly authorized, under Indiana Code 8-21-12, to finance improvements related to an airport or aviation related property or facilities, including the acquisition of real estate, by borrowing money and issuing revenue bonds. Any bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of revenues from the leases of the projects financed out of the bond proceeds, the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of any constitutional provision or limitation.

On February 11, 1992, the Transportation Finance Authority issued bonds in the principal amount of $201.3 million. Additionally, Series 1995A parity bonds in the amount of $29.7 million were issued May 15, 1995. The bonds were issued to finance certain improvements related to the United Airlines maintenance facility at Indianapolis International Airport. These bonds are payable from rental revenues as may be appropriated by the Indiana General Assembly for that purpose.

On December 1, 1996, the Authority issued Airport Facilities Lease Revenue Refund Bonds Series 1996A in the amount of $137.7 million with interest rates from 4.5% to 6%. A portion of the proceeds was deposited in an escrow fund to refund a portion of the 1992 issue. The amount of defeased debt still outstanding but removed from the General Long Term Debt Account Group at June 30, 2000 was $127 million.

Indiana Transportation Finance Authority (ITFA) Aviation Technology Center Lease Bonds, Series A – On November 1, 1992, the Indiana Transportation Finance Authority issued Aviation Technology Center Lease Bonds - Series A, in the principal amount of $11.6 million. These bonds were issued to finance the costs of construction and equipping a new aviation technology center at Indianapolis International Airport. These bonds are payable from lease revenues as may be appropriated from the Indiana General Assembly for that purpose.

Changes in Long-Term Liabilities: During the year ended June 30, 2000, the following changes occurred in liabilities reported in the general long-term debt account group.

	Balance, July 1, as Restated	Accretions and Additions	Reductions	Balance, June 30
Compensated absences	$ 100,565	$ 60,697	$ 51,922	$ 109,340
Revenue bond debt	719,812	3,109	17,905	705,016
Capital leases	3,337	2,729	1,654	4,412
Totals	$ 823,714	$ 66,535	$ 71,481	$ 818,768

Proprietary Funds:

Indiana State Office Building Commission – The Indiana State Office Building Commission (SOBC) was created as a public body corporate and politic by the 1953 Acts of the Indiana General Assembly. The SOBC is authorized to construct and equip such facilities as the General Assembly may authorize through the issuance of revenue bonds. The SOBC has issued debt obligations to provide funds for financing the implementation of the Indiana Government Center Master Plan and to finance acquisition costs (including design and construction costs) of the Indiana Museum, Miami Correctional Facility, Pendleton Juvenile Correctional Facility, New Castle Correctional Facility and the Replacement Evansville State Hospital. The facilities are rented to the Indiana Department of Administration (DOA) under use and occupancy agreements.

Bonds issued by the SOBC are obligations only of the SOBC and are payable solely from and secured exclusively by the pledge of the income of the applicable facility financed. The SOBC has no taxing authority and rental payments by the DOA are subject to and dependent upon appropriations made for such purposes by the General Assembly.

On September 8, 1993, the Commission issued $178.4 million in advance refunding Capital Complex Revenue Bonds (Series 1993 A, B and C Bonds). This series of bonds was issued to fully refund in advance of their stated maturity dates certain Capital Complex Revenue Bonds from the 1986, 1987, 1988 and 1990 A, B and C Series. On January 1, 1998, Facilities Revenue Refinance Bonds Series 1998A in the amount of $93 million with interest rates from 3.9% to 5.125% were issued to fully refund in advance of their stated maturity dates the 1991 Series Bonds. The net proceeds were used to purchase U.S Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service for the refunded bonds. At June 30, 2000, the Commission had a total of $275.9 million defeased bonds outstanding.

On February 18, 1999, the Commission amended and restated the Hoosier Notes credit agreement dated February 18, 1998 which provides up to $150 million of commercial paper to provide interim financing for the acquisition and construction of certain facilities. Outstanding borrowings under this facility at June 30, 2000 were $123 million and bears interest at the London Interbank Offered Rate (LIBOR) plus .25% or 70% of the bank's prime lending rate. The interest rate in effect at June 30, 2000 was 4.4%.

On June 1, 2000 the Commission issued the Series 2000 B Bonds to refund on a current basis a portion of the Commissions' outstanding Series 1990 D Bonds. The 2000 B Bonds bear interest that fluctuates based on the market rate, not to exceed 10% per annum. The net proceeds of $42.7 million were used to purchase U.S. Government securities. These securities, plus $6.6 million of restricted assets released, were deposited in an irrevocable trust with an escrow agent to provide for the July 1, 2000 refunding on a current basis a portion of the Series 1999 D Bonds. While the Commission believes an economic gain and lower cash flow requirements will result from the refunding, the amount of such benefits, if any, is not presently determinable because the interest rates fluctuate based on the market rate.

Recreational Development Commission – The Recreational Development Commission was created in 1973 by an Act of the General Assembly which is now I.C 14-14-1, for the purpose of providing funds for projects involving Department of Natural Resources' properties. The Commission consists of five members. The Treasurer of State and the Director of the Department of Natural Resources (DNR) are members by virtue of their offices and the other three members are appointed by the Governor.

In 1987 and 1990 revenue bonds were issued to provide funds to renovate and equip Abe Martin Lodge and Turkey Run Inn and to construct cabins at Harmonie and Whitewater State Parks. Lease agreements with the Indiana Department of Natural Resources State Park Inns are used to repay the bond issues. The buildings and land will then be deeded back to the State of Indiana.

In 1994, the Commission executed three Escrow Deposit Agreements with bank trustees for the purpose of refunding revenue debentures issued in 1987 and 1990. A portion of the proceeds from the 1994A Revenue Bonds was used to fund the redemption.

On January 1, 1997, the Commission issued $6.6 million of Series 1997 Revenue Bonds with interest rates from 4% to 5.35% to finance a golf course at Ft. Harrison State Park.

Indiana Transportation Finance Authority – East-West Toll Roads – The Indiana Transportation Finance Authority (ITFA) is the successor to the Indiana Toll Finance Authority created in 1983 pursuant to IC 8-9.5. ITFA is a body both corporate and politic and, although separate from the State, the exercise by ITFA of its powers constitutes an essential government function. ITFA's duties consist of the construction, reconstruction, improvement, maintenance, repair and operation of all toll roads and bridges in the state. To exercise its duties, ITFA may issue bonds under statute.

Bonds issued are corporate obligations of ITFA and are payable solely from and secured exclusively by the pledge of the revenues from the leases to the Indiana Department of Transportation of the projects financed out of the bond proceeds and the proceeds of such bonds and the investment earnings thereon. ITFA has no taxing power and any indebtedness incurred by ITFA does not constitute an indebtedness of the State within the meaning or application of the any constitutional provision or limitation.

During September 1985, ITFA issued $256.9 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1985 for the refunding of the outstanding portion of the Indiana Toll Commission East-West Toll Road Revenue Bonds, 1980 Series. At June 30, 2000, the principal amount of the Series 1980 bonds, which have been defeased in substance, was $214.1 million.

During March 1987, ITFA issued $184.7 million of Indiana Toll Finance Authority Toll Road Revenue Refunding Bonds, Series 1987 to provide for the early redemption of an aggregate of $144.2 million of the Series 1985 bonds. At June 30, 2000, the principal amount of the Series 1985 bonds, which have been defeased in substance, was $144.2 million.

During October 1993, ITFA issued $76 million of Indiana Transportation Finance Authority Taxable Toll Road Lease Revenue Refunding Bonds, Series 1993 to provide resources to purchase U.S. government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of a portion of the outstanding 1985 Series. At June 30, 2000, the principal amount of defeased debt outstanding was $66.9 million.

During October 1996, ITFA issued $134.8 million of Series 1996 Revenue Refunding Bonds with interest rates from 3.9% to 6.5%. The proceeds were placed in trust for the purpose of generating resources for future debt service payments on the Series 1987 Bonds. At June 30, 2000, the principal amount of defeased debt outstanding was $127.1 million.

Revenue bonds outstanding at June 30, 2000 (less unamortized discount of $19.6 million) are as follows.

	Interest rates	Amount
General Long-Term Debt Account Group		
ITFA Highway Revenue Bonds	4.25% - 7.25%	$ 471,776
ITFA Airport Facilities Bonds	4.50% - 6.50%	223,220
ITFA Aviation Technology Center Bonds	5.65% - 6.50%	10,020
		$ 705,016
Proprietary funds:		
Indiana State Office Building Commission	2.75% - 10.00%	$ 606,094
Recreational Development Commission	3.60% - 6.13%	24,168
ITFA Toll Roads	3.90% - 9.50%	242,053
		$ 872,315

State Lottery Commission Accrued Prize Liability – Accrued prize liability includes an estimate of unclaimed scratch-off and on-line game winners and future television game show prizes awarded on shows committed to as of June 30, 2000, as well as installment amounts payable to past scratch-off, on-line and game show winners. Installment prizes payable are recorded at a discount based on interest rates that range from approximately 5% to 8% and reflect interest earned by investments held to fund related liabilities. At June 30, 2000, the accrued prize liability was $105.2 million including $42.4 million in current prize liability and $62.8 million in long-term prize liability.

Revenue bond debt service and accrued prize liability requirements to maturity, including $922.0 million of interest, are as follows:

Fiscal year ending June 30,	General Long-Term Debt Account Group	Proprietary funds	Total
2001	$ 55,729	$ 75,898	$ 131,627
2002	59,850	86,347	146,197
2003	60,220	93,289	153,509
2004	60,598	92,902	153,500
2005	60,363	92,245	152,608
Thereafter	799,455	1,100,577	1,900,032
Total	$ 1,096,215	$ 1,541,258	$ 2,637,473

Long-Term Debt of the Significant Discretely Presented Component Units is as follows:

Indiana Development Finance Authority – The Indiana Development Finance Authority (IDFA) was established by the General Assembly, in 1990, as a body corporate and politic to independently exercise essential public functions. IDFA's primary purpose is to provide job-creating industrial development projects with access to capital markets where adequate financing is not otherwise available.

IDFA is a party to a reimbursement agreement with Qualitech Steel Corporations (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds Series 1996. Qualitech filed a petition for relief under Chapter 11 of the Bankruptcy Code. As a result, IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the Bonds totaling $28.7 million as of September 1, 2000. Debt service reserve funds aggregating $3.99 million are currently held in trust and may be available to reduce the contingent obligation

For more information, see Note IV E. Contingencies and Commitments – Loss from Reimbursement Agreement.

Indiana Housing Finance Authority -- In 1978, the Indiana Housing Finance Authority (the Authority) was granted the power to issue bonds for the purpose of financing residential housing for persons and families of low and moderate incomes. These bonds are special obligations of the authority and are payable solely from the revenues and assets pledged. Various series of bonds have been issued with an original amount of $1,273 million with interest rates ranging from 3.90% to 9.375%. The total outstanding debt associated with these bond issues as of December 31, 1999 was $793 million.

During 1993, the Authority used three bank loans to refinance or redeem bonds in the 1983A, B, and C Series and the 1984A and B Series Single Family Mortgage Indenture Series. The principal amount of these loans totaled $31.8 million. The Authority repaid the 1983A and B bank loan during 1998 and the 1983C and 1984A and B bank loans during 1999.

During 1996, the Authority used one new bank loan to redeem all of the bonds from the General Fund Collateralized Mortgage Obligation Series A. The principal amount of this loan totaled $12.6 million as of December 31, 1999.

During 1999, GNMA Mortgage Program Fund redeemed the remaining bonds on the 1989 Series A, through an optional redemption, at a premium of 103%, resulting in a premium paid of $428,100. This transaction resulted in deferred debt issuance cost of $162,469.

In December 1999, the Multi-Unit Mortgage Program Fund issued 1999 Bond Series A and B with a face value of $18.2 million and interest rates varying from 5.40% to 6.88%. The proceeds of the bonds are currently being used to finance the acquisition and rehabilitation of five HUD 236 properties located throughout the state of Indiana.

During 1999 the Single Family Mortgage Program Fund issued 1999 Bond Series with a face value of $162.6 million and interest rates varying from 3.90% to 7.09%. The Single Family Mortgage Program Fund provides for the purchase of mortgage loans made to eligible borrowers for owner occupied housing.

The Indiana Housing Finance Authority borrowed $35.0 million during 1999 against its line of credit. The proceeds from this borrowing were at an interest rate of 5.408%

During 1999, the Multi-Unit Mortgage Program Fund redeemed the remaining bonds on the 1985 Series A, through an optional redemption. The borrower in this series opted to prepay the mortgage loans. The terms of the mortgage note required the borrower to pay the outstanding principal of the bonds plus accrued interest. As the total outstanding principal and accrued interest exceeded the remaining balance of the mortgage loan, the Authority recognized $1.5 million in gain from early extinguishment of the bonds. This transaction resulted in deferred debt issuance cost and original issuance discount of $211,750 and $70,328 respectively.

Indiana Bond Bank – The Bond Bank is an instrumentality of the State of Indiana but is not a state agency and has no taxing power. It has separate corporate and sovereign capacity and is composed of the Treasurer of State (who serves as Chairman of the Board, ex officio), the Director of the Department of Financial Institutions (who serves as director, ex-officio), and five directors appointed by the Governor. The Bond Bank is authorized to buy and sell securities for the purpose of providing funds to Indiana qualified entities. To achieve its purpose, the Bond Bank has issued various bonds and notes payable. The bonds and notes payable were issued under indentures of trust. Each indenture requires the maintenance of debt service reserve accounts. Total outstanding debt as of June 30, 2000 was $1,321 million with interest rates ranging from 3.10% to 7.40%. Assets held in debt service reserve accounts are included in cash, cash equivalents, and investments and amounted to $27.6 million.

Special Program Bonds Series 1985A, 1989A, 1989B, 1991B and 1991A are considered to have been defeased and have been removed from the financial statements and in total have remaining outstanding principal balances of approximately $98 million at June 30, 2000.

In July, 1999 the Bond Bank issued Advanced Funding Program Series AF 1999 B bonds with a face amount of $8.0 million and an interest rate of 3.54%. In February, 2000 the Bond bank issued Advanced Funding Program Series AF 2000 A bonds with a face amount of $364.8 million and an interest rate of 4.75%.

In January, 2000 the Bond Bank issued Special Program Bonds Series 2000 A with a face amount of $64.4 million at interest rates varying from 4.45% to 6.50%.

In September, 1999 the Bond Bank issued State Revolving Series 1999 bonds with a face amount of 7.0 million and an interest rate of 5.0%. In April 2000 the Bond Bank issued State Revolving Series 2000 A with a face amount of $143.6 million at interest rates varying from 4.500% to 5.875%.

In January 2000, the Bond Bank issued its Special Program Series 2000A Refunding Bonds in the amount of $32,860,000. Proceeds from this issue and certain related investments were used to defease the Special Program Bonds Series 1985B, 1986B, 1986C, 1986E, 1987A, 1989C, 1990A, 1990B, and Special Loan Program Bonds Series 1988A, 1988B, 1988C, and 1989A in entirety. The difference between the amount deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased debt and the net carrying amount of the defeased debt resulted in a deferred cost on defeasance of $1.2 million, which is being amortized over the life of the Special Program Series 2000A Refunding Bonds. However, the issuance of the Special Program Series 2000A Refunding Bonds will reduce the Bond Bank's aggregate debt service payments by $17.7 million over the 20-year period extending through February 2020, resulting in an economic gain (the difference between the present values of the old and new debt service payments) of approximately $4.9 million.

In February 2000, the County of St. Joseph Economic Development District prepaid its Tax Increment Financing Program Bonds of 1991, Series A-1 and A-2 (the 1991 Obligations), which solely supported the Bond Bank's Series 1991A Bonds. The Bond Bank used the proceeds from the prepayment of the 1991 Obligations to purchase U.S. Government obligations which were placed in an irrevocable trust for the sole purpose of defeasing the Series 1991A Bonds. As a result, the investments held in the irrevocable trust and the Series 1991A Bonds are not recorded in the accompanying financial statements. The amount of Series 1991A Bonds considered defeased was $27,995,000 at June 30, 2000.

Colleges and Universities -- Both Indiana University and Purdue University are authorized by acts of the Indiana General Assembly to issue bonds for the purposes of financing construction of student union buildings, halls of music and housing, athletic, parking, hospital, academic facilities and utility systems.

Indiana University

The outstanding long-term bonded indebtedness at June 30, 2000 was $540.4 million with interest rates ranging from 4.0% to 6.6%.

On November 1, 1999, the university issued a bond anticipation note (BAN) in the aggregate principal amount of $1.7 million to fund certain costs associated with the acquisition, construction, and equipping of a new parking garage on the Kokomo campus, providing 380 new parking spaces. The interest rate was 4.55%.

On December 8, 1999, the university issued Indiana University Student Fee Bonds, Series M, in the amount of $47.9 million. The purpose of the issue was to provide partial financing for the Graduate School of Business building on the Bloomington campus and the School of Law building on the Indianapolis campus; and the financing of the renovation of the existing Law School on the Indianapolis campus for use as a facility for ceramics and sculpture programs of the Herron School of Art and the expansion/renovation of the Life Sciences building and the Physical Sciences Building on the Southeast campus. The true interest cost was 5.517%.

In prior years, Indiana University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2000 was $78.2 million.

Purdue University

The outstanding long-term bonded indebtedness at June 30, 2000 was $287.6 million at 2.6% to 6.5% for Purdue University.

In prior years, Purdue University has defeased bond issues either with cash or by issuing new debt. U.S. Treasury obligations have been purchased in amounts sufficient to pay principal and interest payments when due, through maturity, and have been deposited in irrevocable trust with the trustee. Neither the defeased bonds nor the related trusts are reflected on the University's books. The total amount of defeased debt outstanding at June 30, 2000 was $149.9 million.

G. Equity Reserves

Reserved fund balances/retained earnings are as follows:

Fund balance / retained earnings reserved for:	Encumbrances and prepaid items	Tuition Support	Employees' pension benefits	Advances and inter-governmental loans	Debt service	Special purposes, future losses and other	Endowments and similar funds	Total reserves
Governmental funds:								
General Fund	$ 55,454	$ 265,000	$ -	$ 12,854	$ -	$ -	$ -	$ 333,308
Special revenue funds	1,018,464	-	-	381,257	-	-	-	1,399,721
Debt service funds	-	-	-	-	12,040	-	-	12,040
Capital projects funds	13,215	-	-	10,092	-	-	-	23,307
Proprietary funds:								
Enterprise funds	-	-	-	865	-	60,057	-	60,922
Internal service funds	-	-	-	300	-	7,097	-	7,397
Trust and agency funds:								
Non-expendable trust funds	-	-	-	269,765	-	-	-	269,765
Pension trust funds	-	-	16,186,104	-	-	-	-	16,186,104
Discretely presented component units:								
Governmental	10,102	-	-	-	-	-	-	10,102
Colleges and universities	-	-	-	-	-	-	409,069	409,069
Total	$ 1,097,235	$ 265,000	$ 16,186,104	$ 675,133	$ 12,040	$ 67,154	$ 409,069	$ 18,711,735

H. Contributed Capital

There were no changes to contributed capital. The balances were as follows:

	Enterprise Funds	Internal Service Funds			
	Inns and concessions	Institutional industries	Administrative services revolving	State Office Building Commission	Total
Contributed Capital	$ 9,308	$ 8,878	$ 1,490	$ 9,981	$ 29,657

I. Restatements and Reclassifications

For the fiscal year ended June 30, 2000, certain changes have been made to the financial statements to more appropriately reflect financial activity of the State of Indiana

Primary Government - For the fiscal year ended June 30, 2000, the Employee, Payroll, Withholding and Benefits fund and Local Distributions fund are being reported as agency funds and were not reported that way in the past. Other prior period adjustments are reclassifications and errors not individually material to the financial statements.

The following schedule presents a summary of restated beginning balances by fund type:

	June 30, 1999 As Reported	Prior Period Adjustments	Balance July 1, As Restated
Primary government including blended component units:			
General Fund	$ 3,440,583	$ (7)	$ 3,440,576
Special revenue funds	1,868,267	1,486	1,869,753
Debt service funds	10,706	-	10,706
Capital projects funds	517,898	(176)	517,722
Enterprise funds	146,357	166	146,523
Internal service funds	50,887	(3,571)	47,316
Trust and agency funds:			
Expendable trust	1,941,517	-	1,941,517
Nonexpendable trust	421,430	-	421,430
Pension trust	14,828,110	1	14,828,111
Agency (asset)	354,493	6,077	360,570
Discretely presented component units:			
Governmental	19,863	176	20,039
Proprietary	443,143	1	443,144
Colleges & universities	3,840,339	(113)	3,840,226
	$ 27,883,593	$ 4,040	$ 27,887,633

IV. OTHER INFORMATION

A. Risk Management

The State of Indiana is exposed to various risks of loss. This includes damage to property owned by the agencies, personal injury or property damage liabilities incurred by a State officer, agent or employee, errors, omissions and theft by employees, certain employee health benefits, employee death benefits, and unemployment and worker's compensation costs for State employees.

The State records an expenditure for any loss as the liability is incurred or replacement items are purchased. The State does purchase immaterial amounts of commercial insurance. Settlements related to commercial insurance have not exceeded coverage in the past three fiscal years.

The State does have risk financing activity for the state employees' disability, state employees' death benefits, certain state employees' health benefits, and certain health, disability and death benefits for State Police officers. These are reported in five individual Internal Service Funds. The state employees' disability program is financed partially by state employees through payroll withholdings and by the funds from which employees are paid. The employees' death benefits are financed through a charge to each fund with payroll expenditures. The charge is a percentage of gross pay. The employees' health benefits and the State Police traditional health plan are funded by the employees who have selected certain health care benefit packages and the funds from which those employees are paid. (An insurance carrier does provide claims administration services for the health insurance programs.) The State Police benefit fund is financed by statutory appropriations and certain witness fees.

Located below is the table of claim liabilities. The liabilities are not maintained in the accounting records of the State. The claim liabilities for the health insurance programs and the State Disability fund were estimated based on the historical experience rate of claims paid that were for service dates incurred during a prior fiscal year. The liability for employee death benefit is based on claims submitted and paid during July for liabilities incurred prior to June 30. The liability of the State Police benefit fund was based on an estimate of the minimum liability of death and disability payments. Claims expenses and liabilities were not reasonably estimable for State Employee death benefits. The surplus retained earnings in these funds is reserved for future catastrophic losses.

	State Police Health Insurance Fund	State Employees' Health Insurance Fund	State Disability Fund	State Employees' Death Benefits fund	State Police Death Benefits	Total
2000						
Unpaid Claims, July 1	$ 2,302	$ 6,315	$ 9,579	$ -	$ 1,175	$ 19,371
Incurred Claims and Changes in Estimate	13,208	57,275	20,151	-	1,362	91,996
Claims Paid	13,497	55,580	18,612	-	1,262	88,951
Unpaid Claims, June 30	$ 2,013	$ 8,010	$ 11,118	$ -	$ 1,275	$ 22,416
1999						
Unpaid Claims, July 1	$ 2,200	$ 7,250	$ 833	$ 50	$ 1,090	$ 11,423
Incurred Claims and Changes in Estimate	12,558	47,454	23,646	50	1,255	84,963
Claims Paid	(12,456)	(48,389)	(14,900)	(100)	(1,170)	(77,015)
Unpaid Claims, June 30	$ 2,302	$ 6,315	$ 9,579	$ -	$ 1,175	$ 19,371

The trustees of Indiana University and Purdue University have chosen to assume a portion of the risk of loss for their respective institutions. Each university is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; health and other medical benefits provided to employees and their dependents. The universities individually handle these risks of loss through combinations of risk retention and commercial insurance. The amount of settlements did not exceed insurance coverage in the past three fiscal years. The universities' estimated liability for unpaid claims at June 30, 2000 was $28.9 million.

B. Investment in Joint Venture

The Indiana Transportation Finance Authority (ITFA) is a participant in a governmental joint venture with United Airlines. This participation is an investment, pursuant to an Agreement Among Tenants of Leasehold Estate in Airport Development Project (joint venture), dated as of December 1, 1991 and amended as of May 15, 1995 to obtain an individual ownership interest in the Site and facilities to be acquired and constructed by United Airlines, as outlined in the Site and Facilities Lease Agreement, dated as of December 1, 1991 and amended as of May 15, 1995.

The ITFA deposited $159 million of the bond proceeds of the Series 1992A bonds into the project account of the construction fund to provide for a portion of the costs of constructing and equipping Phase I of the United Airlines Indianapolis Maintenance Center. Additional proceeds of $32.8 million, which consisted of capitalized and accrued interest, were deposited in the interest account of the construction fund.

The construction fund transactions related to the investment in Joint Venture are not reported as part of the financial reporting relating to ITFA's Airport Facilities Lease Revenue bonds. The construction fund is used to account for the acquisition and construction of a portion of the United Airlines Facility.

Financial Statements can be obtained from the Indiana Transportation Finance Authority as noted in Note 1A.

C. Segment Information -- Enterprise Funds

The State of Indiana has five enterprise funds, which are intended to be self-supporting through user fees charged for services to the public. The Inns and Concessions provide lodging and dining throughout the year for state park tourists. The Toll Bridges collect fees for the repayment of construction costs and to provide maintenance of the bridges. The Toll Roads collect fees for repayment of road construction and maintenance of roads. The State Lottery Commission provides money for various pension and educational funds, as well as for local building projects. The Residual Malpractice Insurance Authority provides medical malpractice insurance for those who cannot get coverage.

Included below is segment information for enterprise funds for the fiscal year ended June 30, 2000.

	Inns and concessions	Toll bridges	Toll roads	State Lottery Commission	Malpractice Insuarance Authority	Total
Operating revenue	$ 16,770	$ 813	$ 92,929	$ 582,542	$ 1,394	$ 694,448
Depreciation and amortization	538	106	10,409	1,008	-	12,061
Operating income (loss)	(425)	209	41,752	161,772	(865)	202,443
Operating transfers in (out)	-	-	-	(164,405)	-	(164,405)
Net income (loss)	(41)	214	31,699	838	(2)	32,708
Fixed asset additions	76	12	29,437	1,145	-	30,670
Net working capital	1,882	2,774	183,693	65,397	3,256	257,002
Total assets	14,106	4,292	423,755	157,021	15,242	614,416
Bonds payable	463	-	242,053	-	-	242,516
Total equity	9,769	1,945	168,518	5,051	3,256	188,539

D. Subsequent Events

During the 1999 legislative session, the Governor and the General Assembly passed a number of tax cuts and shifted certain welfare costs from the counties to the State. It is estimated that the tax cuts will reduce state revenue collections by $572.3 million over the next two fiscal years. The shift in welfare costs is estimated to increase State distributions to local governments by $69.1 million over the same period of time.

On July 28, 1999, the Indiana State Office Building Commission issued Facilities Revenue Bonds, Series 1999A, with an aggregate par value of $96.8 million. The net bond proceeds will be used to fund approximately $9.5 million of construction costs for the Miami Correctional Facility-Phase I, as well as to replace $86.3 million of Hoosier Notes (principal and accrued interest) outstanding at June 30, 2000.

In July 1999, the Indiana Bond Bank issued $8 million of Advanced Funding Program Notes through Series 1999B. The Bond Bank also issued $7 million of State Revolving Fund Program Bonds through Series 1999 Taxable Subordinate I in September 1999.

E. Contingencies and Commitments

Litigation

The State does not establish reserves for judgements or other legal or equitable claims. Judgements and other such claims must be paid from unappropriated fund balances. With respect to tort claims only, the State's liability is limited to $300,000 for injury or death of one person in any one occurrence and $5 million for injury or death of all persons in that occurrence.

The Indiana Attorney General's office estimates a liability of $8-10 million for open tort lawsuits. During fiscal year ending June 30, 2000, the State paid $8.2 million for tort settlements and judgements and $647,000 for tort claims.

The Indiana Attorney General's office is currently handling the following cases which could result in significant liabilities to the State.

On July 26, 1993, a lawsuit was filed in Marion Circuit Court alleging that the State has failed to pay certain similarly classified State employees at equal rates of pay. The plaintiffs seek class action status. The relief sought includes damages in an unspecified amount, as well as injunctive relief. The State has filed a motion to dismiss for failure to exhaust administrative remedies. The motion was denied by the trial court, but the denial is being appealed. During fiscal year 1995, a similar action was filed in the Marion Superior Court. This matter is still pending, and if the State were ultimately unsuccessful, the loss would be in excess of $15 million.

In a lawsuit filed against the State on January 19, 1993, the Marion County Superior Court invalidated the portion of the Medicaid disability standard that previously permitted the State to ignore applicants' inability to pay for medical treatment that would lead to improvement in their medical condition. The Court of Appeals affirmed the decision and a petition for rehearing is pending. If unsuccessful in this litigation, the State would forfeit savings of up to $30 million.

In September, 2000, various Lake County residents and Lake County officials filed a lawsuit in Tax Court claiming that residents of the county pay a disproportionate share of Hospital Care for the indigent property tax and that the tax, therefore violates various constitutional provisions. A response to the petition was filed in November. Plaintiffs are claiming that upwards of $20 million should be refunded to taxpayers.

The State intends to vigorously defend each of the foregoing suits or other claims.

In addition, the State Lottery Commission (the Commission) is the defendant in a class action suit. During 1997, a class action suit was filed in Marion County Court on behalf of all persons denied prizes on tickets submitted beyond the statutorily required, final sixty-day claim period. In October 1997, the Court granted the Commission's motion to dismiss the complaint. However, the Indiana Court of Appeals reversed the trial court decision and found that the plaintiff was entitled to trial on the merits of his claim. The case is now pending before the Indiana Supreme Court.

Management and its legal counsel intend to vigorously defend its position but are unable to predict at this time the final outcome of the appeals process. If the Supreme Court upholds the plaintiff's appeal and allows a trial on the merits of the case, the Commission will vigorously defend its position and believes it will prevail. However, the Commission cannot predict the final resolution of this matter or whether its resolution could materially affect the Commission's results of operations, cash flows or financial position.

Loss from reimbursement agreement

The Indiana Development Finance Authority (IDFA) is a party to a Reimbursement Agreement with Qualitech Steel Corporation (Qualitech) and a bank relating to the $33.1 million Indiana Development Authority Taxable Variable Rate Demand Economic Development Revenue Bonds, Series 1996 (the bonds). The proceeds of the bonds were used by Qualitech to help construct Qualitech's special bar quality steel mini-mill facility, which was substantially complete on March 1, 1999.

To induce the bank to issue a letter of credit used as credit enhancement in the marketing of the bonds, the IDFA agreed to certain provisions in the Reimbursement Agreement. These provisions require the IDFA, in the event of certain defaults by Qualitech to either i) pay bond and related expenses from certain monies legally available to the IDFA, or ii) seek an appropriation from the Indiana General Assembly to repay the bank the amounts due under the Reimbursement Agreement.

Under a forbearance agreement through August 31, 2000, payments are estimated to aggregate $3.5 million, which was recognized as a loss for the year ended June 30, 1999. Because interest rates on the debt service payments were variable, an additional loss of $332,692 was incurred and recorded during the year ended June 30, 2000, of which $166,667 is accrued at June 30, 2000. The bonds remain outstanding under an amended Reimbursement Agreement with a new letter bank credit. The Reimbursement Agreement requires that the IDFA maintain the debt service reserve fund at a level of $3.99 million, and stipulates no declaration of default so long as bond and related payments are made.

The IDFA could be obligated to pay the outstanding balance of the bond issue, which would result in recognition of losses in future years. The amount of this contingency is the outstanding principal of the bonds totaling $28.7 million as of September 1, 2000. Debt service reserve fund aggregating $3.99 million are currently held in trust and may be available to reduce the contingency ogligation.

Federal Grants.

The State has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under the terms of the grants, it is believed that any required reimbursements will not be material.

Construction Commitments.

As of June 30, 2000, the Indiana Transportation Finance Authority Highway Bonds, which are included in the financial reporting entity of the State of Indiana as a special revenue fund, had $12.8 million committed for unfinished highway construction projects.

F. Other Revenue

Other revenue represents revenue received which cannot accurately be included with any of the other revenue sources. In most cases, the amount of "other revenue" received by a fund is insignificant in comparison with total revenues received.

G. Economic Stabilization Fund

In 1982 the Indiana General Assembly adopted Indiana Code 4-10-18, which established the Counter-Cyclical Revenue and Economic Stabilization Fund ("Rainy Day Fund"). This fund was established to assist in stabilizing revenue during periods of economic recession and is accounted for within the State general fund.

Each year the State Budget Director determines calendar year Adjusted Personal Income (API) for the State and its growth rate over the previous year, using a formula determined by the legislature. In general, monies are deposited automatically into the Rainy Day Fund if the growth rate in API exceeds 2%; monies are removed automatically from the Rainy Day Fund if API declines by more than 2%. All earnings from the investments of the Rainy Day Fund remain in the Rainy Day Fund. If the balance in the fund at the end of the fiscal year exceeds 7% of total general fund revenues for the same period, the excess is transferred from the Rainy Day Fund into the Property Tax Replacement Fund.

Loans can be made from the Rainy Day Fund to local units of government for specific purposes. The Rainy Day Fund cash and investment balance at the end of fiscal year 2000 was $539.7 million. Total outstanding loans were $.6 million, resulting in total assets of $540.3 million.

H. Gaming Tax Collections

On July 1, 1999, P.L. 273-1999 created the State Gaming Fund for the collection of Riverboat Wagering Tax. Prior to July 1, 1999, the gaming tax was collected in the State General Fund. During FY 1999 $295 million was collected in the General Fund. During FY 2000, $330 million was collected in the State Gaming Fund:

Included below is comparison of the General Fund for the two years with the Riverboat Wagering Tax adjusted out:

	FY 1999	FY 2000	$ Change	% Change
General Fund Tax Revenue	$ 8,268,867	$ 8,113,160	$ (155,707)	-1.88%
less Riverboat Wagering Tax Collected in the General Fund	(295,181)	-	(295,181)	100.00%
Adjusted General Fund Revenue	$ 7,973,686	$ 8,113,160	$ 139,474	1.75%

I. Deferred Compensation

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides $15 per pay period for each employee who contributes to the 457 Plan.

The State has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

J. Discretely Presented Component Units – Condensed Financial Statements

The Indiana Development Finance Authority (IDFA) is the only discretely presented component unit of a governmental fund type and is considered significant. On the following pages are the condensed financial statements of the proprietary fund types and colleges and universities giving separate detail of the balances and activity of those considered significant to the State reporting entity.

Condensed Balance Sheet
Major and Aggregate Non-major Discretely Presented Component Units
Proprietary fund types and Colleges and Universities
June 30, 2000

	Indiana University	Purdue University	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Assets						
Current assets	$ 750,018	$ 1,591,272	$ 103,651	$ 233,490	$ 1,095,842	$ 3,774,273
Non-current assets	-	-	1,257,978	679,111	194,374	2,131,463
Property, plant, and equipment net of accumulated depreciation	1,387,970	858,689	-	310	875,317	3,122,286
Total assets	$ 2,137,988	$ 2,449,961	$ 1,361,629	$ 912,911	$ 2,165,533	$ 9,028,022
Liabilities						
Current liabilities	$ 212,075	$ 422,607	$ 27,789	$ 2,791	$ 381,320	$ 1,046,582
Revenue bonds / notes payable	545,010	297,137	1,322,013	820,562	511,171	3,495,893
Total liabilities	757,085	719,744	1,349,802	823,353	892,491	4,542,475
Equity						
Net investment in plant	877,941	531,297	-	-	544,005	1,953,243
Endowments and similar funds	142,335	239,382	-	-	27,352	409,069
Unreserved retained earnings	-	-	11,827	89,558	335,623	437,008
Allocated fund balance	88,467	535,741	-	-	218,232	842,440
Unallocated fund balance	272,160	423,797	-	-	147,830	843,787
Total equity	1,380,903	1,730,217	11,827	89,558	1,273,042	4,485,547
Total liabilities and equity	$ 2,137,988	$ 2,449,961	$ 1,361,629	$ 912,911	$ 2,165,533	$ 9,028,022

Condensed Statement of Changes in Fund Balance
Major and Aggregate Non-major Discretely Presented Component Units
Colleges and Universities
For the Fiscal Year Ended June 30, 2000

	Indiana University	Purdue University	Non-major universities	Total
Revenues and other additions:				
Current fund revenues	$ 1,100,590	$ 694,327	$ 595,353	$ 2,390,270
Additions to plant and facilities	131,387	100,358	105,819	337,564
Retirement of indebtedness	31,943	32,199	49,112	113,254
Other additions	816,953	518,693	358,601	1,694,247
Total revenues and other additions	2,080,873	1,345,577	1,108,885	4,535,335
Expenditures and other deductions:				
Current fund expenditures	1,313,768	754,441	741,682	2,809,891
Expended for plant, facilities, and disposals	126,440	76,543	122,353	325,336
Bond issues, issuance costs, and retirements	76,497	4,709	38,106	119,312
Debt service requirements	21,533	48,857	20,579	90,969
Depreciation and amortization	94,263	68,358	48,790	211,411
Other deductions	403,236	282,612	84,111	769,959
Total expenditures and deductions	2,035,737	1,235,520	1,055,621	4,326,878
Transfers from (to) other funds				
Mandatory transfers	-	-	(904)	(904)
Non-mandatory transfers	-	-	760	760
Total transfers from (to) other funds	-	-	(144)	(144)
Net increase (decrease) for the year	45,136	110,057	53,120	208,313
Fund balance, July 1, as restated	1,335,767	1,620,160	884,299	3,840,226
Fund balance, June 30	$ 1,380,903	$ 1,730,217	$ 937,419	$ 4,048,539

Condensed Statement of Current Fund Revenues, Expenditures, and Other Changes
Major and Aggregate Non-major Discretely Presented Component Units
Colleges and Universities
For the Fiscal Year Ended June 30, 2000

	Indiana University	Purdue University	Non-major universities	Total
Revenues:	$ 1,658,020	$ 1,076,745	$ 872,110	$ 3,606,875
Expenditures and mandatory transfers:				
Expenditures:				
Educational and general	1,275,822	858,665	710,056	2,844,543
Auxiliary enterprises	272,244	131,238	105,666	509,148
Mandatory transfers	58,695	47,641	19,698	126,034
Total expenditures and mandatory transfers	1,606,761	1,037,544	835,420	3,479,725
Other transfers and additions (deductions):	(28,840)	(6,794)	(30,747)	(66,381)
Increase (decrease) in fund balance	$ 22,419	$ 32,407	$ 5,943	$ 60,769

Condensed Statement of Revenues, Expenses and Changes in Retained Earnings
Major and Aggregate Non-major Discretely Presented Component Units
Proprietary fund types
For the Fiscal Year Ended June 30, 2000

	Indiana Bond Bank	Indiana Housing Finance Authority	Non-major component units	Total
Operating revenues:	$ 63,197	$ 13,103	$ 52,205	$ 128,505
Operating expenses:	3,568	7,327	20,553	31,448
Operating income (loss)	59,629	5,776	31,652	97,057
Nonoperating revenues (expenses):	(59,230)	(31,291)	(8,548)	(99,069)
Income before operating transfers	399	(25,515)	23,104	(2,012)
Operating transfers in (out)	-	-	(4,124)	(4,124)
Net income (loss)	399	(25,515)	18,980	(6,136)
Retained earnings, July 1, as restated	11,428	115,073	316,643	443,144
Retained earnings, June 30	$ 11,827	$ 89,558	$ 335,623	$ 437,008

K. Employee Retirement Systems and Plans

The State of Indiana sponsors eight public employee retirement systems (PERS) that are included in the State's financial statements as pension trust funds.

Summary of Significant Accounting Policies
Contributions are recognized when received with accrual adjustments at June 30, 2000. The accrual for contributions receivable is estimated for each retirement fund on the basis that best represents that fund's receivable. The different basis include actual third quarter contributions received during the quarter ended June 30, 2000, actual contributions received in July for work days in June, or a combination of the two. Legislators receive the majority of their pay in January and February and the contributions are transferred on the pay dates. Therefore, no receivable is established for the legislators' retirement funds.

Benefits paid are recognized when paid with an accrual adjustment at June 30, 2000. The accrual for benefits payable is based on benefits due at June 30 but not paid until July. Refunds are recognized when paid.

GASB Statement 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The buildings purchased as investments by the Public Employees Retirement Fund (PERF) are reported at cost as there has not been a recent independent appraisal. The buildings are immaterial to PERF's total investments.

The state sponsors the following defined benefit single-employer plans:

State Police Retirement Fund

Plan Description The State Police Retirement Fund (SPRF), is a defined benefit, single-employer PERS, and is administered by the Indiana Department of State Police. Indiana Code 10-1-1 grants authority to the Department to establish and operate an actuarially sound pension plan governed by a pension trust and to make the annual contributions necessary to prevent any deterioration in the actuarial status of the trust fund. The Department has a publicly available audit report that includes financial statements and required supplementary information of the plan. That report may be obtained by writing the Department of State Police, Room N340, IGC-North, Indianapolis, IN 46204.

Funding Policy The pre-1987 plan requires employee contributions of five percent of the salary of a third-year trooper. The 1987 plan applies to all officers hired after June 30, 1987. In addition, state police officers hired prior to July 1, 1987 could elect to be covered under this plan if the employee filed an election with the trustee before July 1, 1989. Participants under the 1987 plan contribute six percent of their monthly base salary.

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal actuarial cost method. Normal cost is funded on a current basis. The unfunded actuarial accrued liability is funded over a forty year period. Periodic contributions for both normal cost and the amortization of the unfunded actuarial accrued liability are based on the level percentage of payroll method. The funding policy for normal cost and unfunded actuarial accrued liability should provide sufficient resources to pay employee pension benefits on a timely basis.

The State is required to contribute at an actuarially determined rate; the current rate is 18.5% of covered payroll.

Excise Police and Conservation Enforcement Officers' Retirement Fund

Plan Description The Excise Police and Conservation Enforcement Officers' Retirement Fund (ECRF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The retirement fund is for employees of the Indiana Department of Natural Resources and Indiana Alcoholic Beverage Commission who are engaged exclusively in the performance of law enforcement duties.

The Excise Police and Conservation Enforcement Officers' Retirement Fund provides retirement, disability, and survivor benefits. Indiana Code 5-10-5.5 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Members are required by statute to contribute three percent of the first $8,500 of annual salary to the Fund. The State of Indiana, as employer, is required by statute to contribute the remaining amount necessary to actuarially finance the coverage; the current rate is 15.6% of covered payroll.

The funding policy for employer contributions of the Excise Police and Conservation Enforcement Officers' Retirement Fund provides for biennial appropriations authorized by the Indiana General Assembly, which when combined with anticipated member contributions are sufficient to actuarially fund benefits (normal cost), amortize the unfunded accrued liability for forty years, and prevent the state's unfunded accrued liability from increasing.

Prosecuting Attorneys' Retirement Fund

Plan Description The Prosecuting Attorneys' Retirement Fund (PARF) is a defined benefit single-employer plan administered by the Board of Trustees of the Public Employees' Retirement Fund. The Prosecuting Attorneys' Retirement Fund provides retirement, disability retirement, and survivor benefits for individuals who serve as a prosecuting attorney or chief deputy prosecuting attorney on or after January 1, 1990. These individuals are paid from the General Fund of the State of Indiana. Indiana Code 33-14-9 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. The amount required to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendations of an actuary, is to be appropriated from the State's General Fund.

Legislators' Retirement System – Legislators' Defined Benefit Plan

Plan Description The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Benefit Plan (IC 2-3.5-4), a defined benefit single-employer PERS, applies to each member of the General Assembly who was serving on April 30, 1989 and files an election under IC 2-3.5-3-1(b). The Legislators' Defined Benefit Plan provides retirement, disability and survivor benefits. The plan is administered by the Board of Trustees of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy The amount required by the funding policy to actuarially fund participants' retirement benefits, as determined by the Board of Trustees on the recommendation of an actuary, is to be appropriated from the State's General Fund.

Judges' Retirement System

Plan Description The Judges' Retirement System (JRS) is a defined benefit single-employer Public Employee Retirement System administered by the Board of Trustees of the Public Employees' Retirement Fund. The Judges' Retirement System provides retirement, disability retirement, and survivor benefits. Coverage is for any person who has served, is serving or shall serve as a regular judge of any of the following courts: Supreme Court of the State of Indiana; Circuit Court of any Judicial Circuit; Indiana Tax Court; County Courts including Circuit, Superior, Criminal, Probate, Juvenile, Municipal and County Court. IC 33-13-10.1 applies to judges beginning service after August 31, 1985. Indiana Code 33-13-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Member contributions are established by statute at six percent of total statutory compensation. However, no contribution is required and no such amounts shall be paid on behalf of any participant for more than twenty-two years.

Employer contributions are determined by the Indiana General Assembly as biennial appropriations from the State General Fund. Indiana Code 33-13-8-16(a)(1) provides that this appropriation only include sufficient funds to cover the aggregate liability of the Fund for benefits to the end of the biennium, on an actuarially funded basis. In addition to the General Fund appropriations, the statutes provide for remittance of docket fees and court fees. These are considered employer contributions.

The State sponsors the following defined benefit agent multiple-employer plan:

Public Employees' Retirement Fund

Plan Description The Public Employees' Retirement Fund (PERF) is a defined benefit agent multiple-employer plan administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 5-10.2 and 5-10.3 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2000, the number of participating political subdivisions was 1023.

Funding Policy The State of Indiana and any political subdivision that elects to participate in the PERF fund is obligated by statute to make contributions to the plan. The required employer contributions are determined by the Board of Trustees based on actuarial investigation and valuation. PERF funding policy provides for periodic employer contributions at actuarially determined rates, that, expressed as percentage of annual covered payroll, are sufficient to fund the pension portion of the retirement benefit (normal cost), administrative expenses, and anticipated increase in the unfunded actuarial accrued liability for the next fiscal year. In addition, employers must remit quarterly payment of the amortization of the initial prior service cost. The amortization period is forty years for those employers whose effective date of participation was before 1985. Thereafter, employers joining have the prior service cost amortized over fifteen years.

Contributions made by or on the behalf of members are not actuarially determined but are set by statute at three percent (3%) of wages. These contributions are credited to the member's annuity savings account that funds the annuity portion of the retirement benefit.

The State is required to contribute for state employees at an actuarially determined rate; the current rate is 5.0% of covered payroll.

The Annual Pension Cost and Net Pension Obligations, the significant actuarial assumptions, and the historical trend information of the single and agent multiple employer defined benefit plans are as follows:

	PERF		SPRF	ECRF	JRS	PARF	LRS
	State	Municipal					
Annual Pension Cost and Net Pension Obligation (Asset)							
Annual required contribution	$ 67,481.0	$ 99,943.0	$ 8,580.3	$ 1,780.8	$ 11,101.4	$ 390.3	$ 208.4
Interest on net pension obligation	(78.0)	(1,433.0)	(44.0)	(20.2)	(103.5)	16.3	(3.4)
Adjustment to annual required contribution	83.0	1,533.0	47.6	20.2	103.2	(17.3)	3.9
Annual pension cost	67,486.0	100,043.0	8,583.9	1,780.8	11,101.1	389.3	208.9
Contributions made	(77,821.0)	(125,223.0)	(9,587.0)	(1,799.6)	(11,095.4)	(184.4)	(200.6)
Increase (decrease) in net pension obligation	(10,335.0)	(25,180.0)	(1,003.1)	(18.8)	5.7	204.9	8.3
Net pension obligations, beginning of year	(1,072.0)	(21,905.0)	(628.4)	(278.9)	(1,428.1)	225.0	(46.8)
Net pension obligations, end of year	$ (11,407.0)	$ (47,085.0)	$ (1,631.5)	$ (297.7)	$ (1,422.4)	$ 429.9	$ (38.5)
Significant Actuarial Assumptions							
Investment rate of return	7.25%	7.25%	7.00%	7.25%	7.25%	7.25%	7.25%
Projected future salary increases:							
Total	5.00%	5.00%	11.60%	5.00%	5.00%	5.00%	3.00%
Attributed to inflation	*	*	*	*	*	*	*
Cost of living adjustments	2.00%	2.00%	6.00%	2.00%	N/A	N/A	2.00%
Contribution rates:							
State	5.00%	5.10%	18.50%	15.60%	37.10%	3.40%	*
Plan members	3.00%	3.00%	6.00%	3.00%	6.00%	6.00%	0.00%
Actuarial valuation date	7/1/99	7/1/99	7/1/00	7/1/99	7/1/99	7/1/99	7/1/99
Actuarial cost method	entry age	entry age	entry age	entry age	entry age	entry age	projected unit credit cost
Amortization method	level dollar	level dollar	level percent	level dollar	level dollar	level dollar	level dollar
Amortization period (from July 1, 1997)	40 years	40 years	40 years	30 years	40 years	30 years	30 years
Amortization period (open or closed)	closed	closed	closed	closed	closed	open	closed
Asset valuation method	75% of Expected Actuarial Value plus 25% of Cost Value	75% of Expected Actuarial Value plus 25% of Cost Value	smoothed basis	smoothed basis	smoothed market	smoothed market	smoothed market value
Historical Trend Information							
Year ended June 30, 2000							
Annual pension cost (APC)	*	*	$ 8,583.9	*	*	*	*
Percentage of APC contributed	*	*	111.7%	*	*	*	*
Net pension obligations (assets)	*	*	$ (1,631.5)	*	*	*	*
Year ended June 30, 1999							
Annual pension cost (APC)	$ 67,486.0	$ 100,043.0	$ 8,583.9	$ 1,780.8	$ 11,101.1	$ 389.3	$ 208.9
Percentage of APC contributed	115.3%	125.2%	111.9%	101.1%	99.9%	47.4%	96.0%
Net pension obligations (assets)	$ (11,407.0)	$ (47,085.0)	$ (628.4)	$ (297.7)	$ (1,422.4)	$ 429.9	$ (38.5)
Year ended June 30, 1998							
Annual pension cost (APC)	$ 81,546.0	$ 101,345.0	$ 9,360.0	$ 1,675.7	$ 10,762.5	$ 275.3	$ 170.9
Percentage of APC contributed	98.3%	114.4%	98.3%	102.9%	99.0%	67.0%	117.9%
Net pension obligations (assets)	$ (1,072.0)	$ (21,905.0)	$ 157.0	$ (278.9)	$ (1,428.2)	$ 225.0	$ (46.7)
Year ended June 30, 1997							
Annual pension cost (APC)	$ 79,101.3	$ 100,780.0	$ 9,251.0	$ 1,382.9	$ 11,347.3	$ 308.6	$ 182.4
Percentage of APC contributed	103.0%	107.0%	71.8%	116.6%	113.5%	56.4%	109.0%
Net pension obligations (assets)	$ (2,483.5)	$ (6,939.0)	N/A	$ (230.2)	$ (1,531.2)	$ 134.7	$ (16.5)

PERF - Public Employees' Retirement Fund
SPRF - State Police Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund
JRS - Judges' Retirement System
PARF - Prosecuting Attorneys' Retirement Fund
LRS - Legislators' Retirement System

N/A - not applicable
* - information not available

The State sponsors the following cost-sharing multiple-employer plans:

State Teachers' Retirement Fund

Plan Description The State Teachers' Retirement Fund (STRF), is a defined benefit, multiple-employer cost-sharing PERS, administered by the Indiana State Teachers' Retirement Fund Board of Trustees. Indiana Code 21-6.1 governs the requirements of the Fund. The Indiana State Teachers' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Indiana State Teachers' Retirement Fund, 150 West Market Street, Indianapolis, IN 46204, or by calling 317-232-3860.

At June 30, 2000, the number of participating employers was 353.

Funding Policy Each school corporation contributes the employer's share to the Fund for certified employees employed under a federally funded program and all the certified employees hired after July 1, 1995 (post July 1, 1995 plan). The employer's share of contributions for certified personnel who are not employed under a federally funded program or were hired before July 1, 1995 is considered to be an obligation of, and is paid by, the State of Indiana (pre July 1, 1995 plan). The pre July 1, 1995 plan is on a "pay as you go" basis. State appropriations are made for the amount of estimated pension benefit pay-outs for each fiscal year. These appropriations include revenues from the State Lottery Commission.

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description The 1977 Police Officers' and Firefighters' Pension and Disability Fund (PFPF) is a defined benefit, multiple employer cost sharing Public Employees Retirement System administered by the Public Employees' Retirement Fund Board of Trustees. PERF provides retirement, disability retirement, and survivor benefits. Indiana Code 36-8-8 governs the requirements of the Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. The report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

At June 30, 2000, the number of participating political subdivisions was 238.

Funding Policy A participant is required by statute to contribute six percent of a first-class patrolman or firefighter's salary for the term of their employment up to thirty-two years. Employer contributions are determined actuarially. The funding policy mandated by statute requires quarterly remittances of member and employer contributions based on percentages of locally established estimated salary rates, rather than actual payroll.

The annual required contributions, percentage contributed, and historical trend information, for the cost sharing, multiple-employer plans are as follows:

	STRF	PFPF*
Historical Trend Information		
Year ended June 30, 1999		
Annual required contribution	$ 524,815.6	$ 63,682.3
percentage contributed	117%	100%
Year ended June 30, 1998		
Annual required contribution	$ 508,259.7	$ 57,726.0
percentage contributed	92%	100%
Year ended June 30, 1997		
Annual required contribution	$ 508,940.1	$ 52,249.0
percentage contributed	106%	101%

STRF - State Teachers' Retirement Fund
PFPF - 1977 Police Officers and Firefighters' Retirement Fund

* - year ended December 31

The State sponsors the following defined contribution plan:

Legislators' Retirement System – Legislators' Defined Contribution Plan

Plan Description The Legislators' Retirement System (LRS) is composed of two separate and distinct plans to provide retirement benefits to the members of the General Assembly of the State of Indiana. The Legislators' Defined Contribution Plan (IC 2-3.5-5), a single employer defined contribution plan applies to each member of the General Assembly who was serving April 30, 1989 and files an election under IC 2-3.5-3-1(b), and each member of the General Assembly who is elected or appointed after April 30, 1989. The plan provides retirement and survivor benefits. The plan is administered by the Board of Trustees' of the Public Employees' Retirement Fund. The Public Employees' Retirement Fund Board of Trustees issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole. That report may be obtained by writing the Public Employees Retirement Fund, Harrison Building, Room 800, 143 West Market Street, Indianapolis, IN 46204, or by calling 317-233-4162.

Funding Policy Each participant shall make contributions of five percent of salary received for services after June 30, 1989. Contributions equal to twenty percent of the annual salary received by each participant for services after June 30, 1989, are to made from the biennial appropriation from the State's General Fund. Actual contributions for the year ended June 30, 2000 were $970,000.

Discretely Presented Component Units

Governmental and proprietary fund types

Employees of the Indiana Development Finance Authority, the Indiana Housing Finance Authority, and the Indiana Bond Bank are covered by the Public Employees' Retirement Fund (PERF). Contributions made during the fiscal year are included in the disclosures for PERF.

Colleges and Universities

Substantially all permanent employees of the college and universities in the State are covered by either the independently administered Teacher Insurance and Annuity Association (TIAA-CREF) or the Public Employees' Retirement Fund (PERF).

The TIAA-CREF plan is a defined contribution plan with contributions made to individually owned deferred annuity contracts. This plan offers career faculty and professional staff mobility since over 5,000 colleges and universities nationwide participate in TIAA-CREF. These are fixed contribution programs in which the retirement benefits received are based on the contributions made plus interest and dividends. Participants in this plan are immediately vested. Eligibility and contribution requirements for TIAA-CREF are determined by each institution. Indiana University and Purdue University contributed $91.9 million for 11,979 participants for the year ended June 30, 2000.

Other staff employees are eligible to become members of PERF. Contributions by the institutions during fiscal year 1998 are included in the disclosures for PERF.

L. Required Supplementary Information

	PERF		Complete				
	State	Municipal	SPRF	ECRF	JRS	PARF	LRS
Valuation Date: July 1, 2000							
Actuarial value of assets	*	*	$ 292,383	*	*	*	*
Actuarial accrued liability (AAL)	*	*	326,016	*	*	*	*
Excess of assets over (unfunded) AAL	*	*	(33,633)	*	*	*	*
Funded ratio	*	*	90%	*	*	*	*
Covered payroll	*	*	50,898	*	*	*	*
Excess (unfunded) AAL as a percentage of covered payroll	*	*	-66%	*	*	*	*
Valuation Date: July 1, 1999							
Actuarial value of assets	$ 1,828,584	$ 2,179,129	$ 273,032	$ 31,510	$ 91,073	$ 8,323	$ 4,319
Actuarial accrued liability (AAL)	1,583,486	1,904,943	303,805	43,368	176,301	13,712	5,473
Excess of assets over (unfunded) AAL	245,098	274,186	(30,773)	(11,858)	(85,228)	(5,389)	(1,154)
Funded ratio	115%	114%	90%	73%	52%	61%	79%
Covered payroll	1,271,756	1,978,441	46,361	11,317	30,963	12,566	**
Excess (unfunded) AAL as a percentage of covered payroll	19%	14%	-66%	-105%	-275%	-43%	**
Valuation Date: July 1, 1998							
Actuarial value of assets	$ 1,626,450	$ 1,925,592	$ 255,614	$ 28,663	$ 79,594	$ 7,144	$ 4,041
Actuarial accrued liability (AAL)	1,491,986	1,775,251	289,612	41,679	160,845	11,356	5,385
Excess of assets over (unfunded) AAL	134,464	150,341	(33,998)	(13,016)	(81,251)	(4,212)	(1,344)
Funded ratio	109.01%	108.47%	88%	69%	49%	63%	75%
Covered payroll	1,229,903	1,880,259	45,187	10,137	30,853	11,673	742
Excess (unfunded) AAL as a percentage of covered payroll	10.93%	8.00%	-75%	-128%	-263%	-36%	-181%
Valuation Date: July 1, 1997							
Actuarial value of assets	$ 1,447,332	$ 1,699,981	$ 240,880	$ 26,324	$ 69,357	$ 5,970	$ 3,834
Actuarial accrued liability (AAL)	1,465,189	1,661,044	279,575	38,460	150,005	9,504	5,429
Excess of assets over (unfunded) AAL	(17,857)	38,937	(38,695)	(12,136)	(80,648)	(3,534)	(1,595)
Funded ratio	99%	102%	86%	68%	46%	63%	71%
Covered payroll	1,283,228	1,773,165	44,470	9,855	29,228	11,811	882
Excess (unfunded) AAL as a percentage of covered payroll	-1%	2%	-87%	-123%	-276%	-30%	-181%

PERF - Public Employees' Retirement Fund
SPRF - State Police Retirement Fund
ECRF - Excise Police and Conservation Enforcement Officers' Retirement Fund
JRS - Judges' Retirement System
PARF - Prosecuting Attorneys' Retirement Fund
LRS - Legislators' Retirement System

* - information not available
** The benefit formula is determined based on service rather than compensation. The unfunded liability is expressed per active participant and there are 60 active participants. The unfunded liability per active participant is $19,245.

APPENDIX C

SPECIMEN BOND INSURANCE POLICY

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Fl.
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

R. Lassiter

President

AMBAC ASSURANCE CORPORATION
CORPORATE
SEAL
WISCONSIN

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Noraida Lauro

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
c/o CT Corporation Systems
44 East Mifflin Street, Madison, Wisconsin 53703
Administrative Office:
One State Street Plaza, New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

SPECIMEN

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

R. Lassiter

President

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

Secretary

Authorized Representative

Form No.: 2B-0015 (7/97)

APPENDIX D

DEFINITIONS

"Account" means any of the accounts established, held and disbursed by the Trustee under the Indenture.

"Acquisition Agreement" means the Advancement Acquisition and Administration Agreement entered into by and among the Bond Bank, State Board of Finance, the Indiana State Board of Education and the Treasurer of the State evidencing the agreement of the Bond Bank to purchase, and the State Board of Finance to sell, certain Agreements and the administration thereof.

"Acquisition Fund" means the Fund as designated, established, held and disbursed by the Trustee for purchases of Agreements pursuant to Article V of the Indenture.

"Act" means Indiana Code Title 5, Article 1.5, as amended.

"Advancement Payment" means the payment from the Treasurer of the State of Indiana to the Trustee representing that amount of principal and interest due under each respective Agreement as provided for in the Acquisition Agreement.

"Agreement" means the various instruments by and between each respective School Corporation listed in Appendix A and the Board of Education evidencing all or a part of the advancements and loans to School Corporations for capital projects and equipment.

"Authorized Officer" means the Chairman, the Vice Chairman, or the Executive Director of the Bond Bank.

"Bond or Bonds" means the Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds of 2001 and any refunding bonds issued under the Act and the Indenture.

"Bond Bank" means the Indiana Bond Bank, established and existing under the provisions of the Act as a body corporate and politic and an instrumentality, but not an agency, of the State, or any agency, board, body, commission, department or officer succeeding to the principal functions thereof or to whom the powers conferred upon the Bond Bank by the Act shall be given by law.

"Bondholder," "Owner," or "Owners"' or any similar term, when used with reference to a Bond or Bonds, means the registered owner of any Outstanding Bond or Bonds.

“Bond Insurer” means Ambac Assurance Corporation.

"Bond Register" means the registration books maintained by the Trustee as Registrar pursuant to Section 2.6 of the Indenture.

"Bond Registrar" or "Registrar" means the Trustee acting as Registrar under the Indenture.

"Bond Year" means, with respect to the Bonds, the one-year period (or shorter period from the date of issue) ending on July 31, of each year.

"Business Day" means any day other than a Saturday, Sunday or legal holiday or any other day on which banking institutions are authorized to close in the State.

"Cash Flow Certificate" means a Positive Cash Flow Certificate or an Improving Cash Flow Certificate.

"Closing Date" means the date on which the Bonds are delivered by the Bond Bank in exchange for payment therefor pursuant to the provisions of Section 3.1 of the Indenture.

"Code" means the Internal Revenue Code of 1986, as amended and in effect on the date of issuance of the Bonds, and the applicable judicial decisions, published rulings and regulations promulgated or proposed thereunder or under the Internal Revenue Code of 1954.

"Costs of Issuance Fund" means the fund so designated, established, held and disbursed by the Trustee pursuant to Article V of the Indenture.

"Current Law" means I.C. 21-1-5 et. seq. as amended and in effect on the date of this Official Statement.

"DTC" means The Depository Trust Company, New York, New York, its successors and assigns, including without limitation (i) any surviving, resulting or transferee corporation, or any successor corporation appointed consistent with the Indenture and (ii) any direct or indirect participants in DTC, including, without limitation, any banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC participant either directly or indirectly.
"Event of Default" means any one or more of the events specified as such in Section 7.1 of the Indenture.

"Financial Guaranty Insurance Policy" means the financial guaranty insurance policy issued by Ambac Assurance Corporation, insuring the payment when due of the principal of and interest on the Bonds as provided therein.

"Fiscal Year" means the period commencing on the first day of July and terminating on the last day of June of the following calendar year.

"Fund" means any of the funds established, held and disbursed by the Trustee under the Indenture.

"General Account" means the Account so designated and established within the General Fund and held and disbursed by the Trustee pursuant to Article V of the Indenture.

"General Fund" means the Fund so designated, established, held and disbursed by the Trustee pursuant to Article V of the Indenture.

"Governmental Obligations" means (a) direct obligations of the United States of America; (b) obligations guaranteed as to principal and interest by the United States of America or any federal agency whose obligations are backed by the full faith and credit of the United States of America, including but not limited to: Department of Housing and Urban Development; Export-Import Bank; Farmers Home Administration; Federal Financing Bank; Federal Housing Administration; General Services Administration; Government National Mortgage Association; Maritime Administration; and Small Business Administration; which obligations include but are not limited to certificates or receipts representing direct ownership of future interest or principal payments on obligations described in clause (a) or in this clause (b) and which are held by a custodian in safekeeping on behalf of the holders of such receipts; (c) securities evidencing ownership interests in open-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, whose investments are limited to the obligations described in clauses (a) and (b) and to repurchase agreements fully collateralized by such obligations); and (d) obligations of any state of the United States or any political subdivision thereof, the full payment of principal, of premium, if any, and interest on which (i) is unconditionally guaranteed or insured by the United States of America, or (ii) is provided for by an irrevocable deposit of the securities described in clause (i) to the extent such investments are permitted by law.

"Improving Cash Flow Certificate" means a certificate prepared by the Bond Bank in accordance with Section 6.17 of the Indenture to the effect that, in its judgment, the action proposed to be taken by the Bond Bank will result in the same or greater ability of the Bond Bank to pay projected required debt service on all Outstanding Bonds from Revenues expected to be received after taking such action in each Fiscal Year, together with other moneys in the Funds and Accounts under the Indenture (other than the Rebate Fund) available therefor in accordance with Section 6.17 of the Indenture, than would otherwise have been the case Without the taking of such action.

"Indenture" means the Indenture of Trust by and between the Bond Bank and the Trustee dated as of August 1, 2001, as supplemented or amended by any indenture supplemental hereto or amendatory hereof.

"Interest Payment Date" means any date on which interest is payable on the Bonds.

"Investment Securities" means those investments described in Section 13.7 of the Indenture.

"Opinion of Bond Counsel" means a written opinion of a nationally recognized law firm experienced in matters relating to the tax exemption of interest payable on obligations of states and their instrumentalities and political subdivisions under federal law, and which is acceptable to the Bond Bank and the Trustee.

"Outstanding" when used with reference to the Bonds, means at any date as of which the amount of outstanding Bond is to be determined, the aggregate of all Bonds authorized and issued by the Bond Bank and authenticated and delivered by the Trustee under the Indenture, including any Bonds held by the Bond Bank, except:

(a) Bonds canceled or surrendered to the Trustee for cancellation after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds deemed to have been redeemed as provided in Section 4.6 or paid as provided in Article XI of the Indenture; and

(c) Any Bond in lieu of or in substitution for which another Bond or Bonds shall have been issued by the Bond Bank and authenticated and delivered by the Trustee pursuant to the Indenture.

"Paying Agent" means the Trustee acting as Paying Agent under the Indenture.

"Positive Cash Flow Certificate" means a certificate prepared in accordance with Section 6.17 of the Indenture to the effect that immediately after the occurrence or non-occurrence of a specific action or omission, as appropriate, Revenues expected to be received, together with moneys expected to be held in the Funds and Accounts available therefor as provided in Section 6.17 of the Indenture, will at least be sufficient on each Interest Payment Date to provide payment of the principal of and interest on the Outstanding Bonds due on such date and the payment of Program Expenses, if any.

"Principal Payment Date" means an Interest Payment Date which is also a maturity date of any Bond.

"Program" means the program of the Bond Bank for purchasing Advancement Agreements from the State Board of Finance with proceeds of the Bonds pursuant to the Act.

"Program Expenses" means the expenses authorized to be incurred by the Bond Bank in connection with the implementation and operation of the Program, including reasonable fees and expenses of the Trustee, fees and expenses of Bond Bank, counsel, bond counsel, professional consultants and other service professionals in connection with the implementation and administration of the Program, costs of preparing and delivering Cash Flow Certificates pursuant to Section 6.17 of the Indenture, costs of determining and complying with any and all requirements to rebate amounts to the United States of America pursuant to Section 5.10 of the Indenture, and other incidental and related costs.

"Purchase Price" means the purchase price of the right to receive certain of the payments made pursuant to the respective Advancement Agreements.

"Rebate Fund" means the fund so designated, established, held and disbursed by the Trustee pursuant to Article V of the Indenture.

"Record Date" means the fifteenth calendar day of the month next preceding an Interest Payment Date.

"Redemption Account" means the Account so designated and established within the General Fund and held and disbursed by the Trustee pursuant to Article V of the Indenture.

"Refunding Bonds" means Bonds issued pursuant to Section 3.2 of the Indenture and a Supplemental Indenture hereto.

"Revenues" means the income, revenues and profit of the Funds and Accounts referred to in the granting clauses of the Indenture including, without limitation, all Advancement Payments.

"School Corporations" means those school districts located within Indiana.

"Standard & Poor's" means Standard & Poor's Ratings Group, a division of the McGraw Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, and its successors and assigns, and in the event that such corporation no longer performs the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Bond Bank will notice to the Trustee.

"State" means the State of Indiana.

"Supplemental Indenture" means any indenture supplemental to or amendatory of the Indenture as originally executed which is duly executed in accordance with the provisions of the Indenture.

"Trust Estate" means the trust estate defined, described and established under the granting clauses of the Indenture.

"Trustee" means BNY Trust Company of Missouri, a state banking association, and any successor trustee pursuant to Section 8.5 or Section 8.8 of the Indenture at the time serving as Trustee hereunder.

APPENDIX E

FORM OF BOND COUNSEL OPINION

Upon delivery of the Bonds, Mayer, Brown & Platt, Bond Counsel
will deliver an opinion in substantially the following form:

August __, 2001

Indiana Bond Bank
Indianapolis, Indiana

Re: Indiana Bond Bank Common School Fund
Advancement Purchase Funding Bonds of 2001

Ladies and Gentlemen:

We have acted as bond counsel in connection with the issuance by the Indiana Bond Bank (the "Issuer") of $55,460,000 aggregate principal amount of the Indiana Bond Bank Common School Fund Advancement Purchase Funding Bonds of 2001 originally dated August 1, 2001 (the "Bonds"). The Bonds are being issued pursuant to Indiana Code 5-1.5, as amended (the "Act"), and an Indenture of Trust dated as of August 1, 2001 (the "Indenture"), between the Issuer and BNY Trust Company of Missouri, as trustee.

In our capacity as bond counsel, we have examined a certified record of proceedings of the Issuer authorizing the issuance, sale and delivery of the Bonds and such other matters of fact and law as we have deemed necessary or appropriate for purposes of rendering this opinion (collectively, the "Proceedings").

As to questions of fact material to our opinion, we have relied upon the Proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent examination.

Based on the foregoing, we are of the opinion that, under existing law:

1. The Indenture constitutes a valid and binding obligation of the Issuer enforceable upon the Issuer. The Indenture creates the valid pledge that it purports to create of the Funds and Accounts (as defined in the Indenture) thereunder and the Advancement Agreements (as defined in the Indenture) being acquired with the proceeds of the Bonds, subject to the application thereof to the purposes of and the conditions permitted by the Indenture.

2. The Bonds have been duly authorized, executed, and issued by the Issuer in accordance with the Act, and are valid and binding special obligations of the Issuer, payable solely from and secured solely by the sources provided therefor in the Indenture.

3. The interest on the Bonds is excludable pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), from gross income for federal income tax purposes and the Bonds are not "private activity bonds" under Section 141 of the Code; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. The initial public offering price of the Bond maturing on February 1, 2019 (the "Discount Bond"), is less than the amount payable thereon at maturity. The difference between the initial public offering price of the Discount Bond and the amount payable at maturity is original issue discount which, in our opinion and subject to the conditions and requirements set forth above, constitutes interest that is excludable under Section 103 of the Code from gross income of the holders thereof for purposes of federal income taxation.

The opinions set forth in the preceding paragraph are subject to the condition that the Issuer, the State of Indiana and certain divisions and departments of the State of Indiana comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The Issuer, the State of Indiana and those divisions and departments of the State of Indiana have covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the interest on the Bonds to cease to be excludable from gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

4. The interest on the Bonds is exempt from taxation in the State of Indiana for all purposes except the Indiana financial institutions tax and the Indiana inheritance tax.

It is to be understood that the rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

APPENDIX F

SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE

The following is a summary of certain additional provisions of the Indenture not otherwise discussed in this Official Statement. This summary is qualified in its entirety by reference to the Indenture.

Accounts and Reports

The Bond Bank will keep proper and separate books of records and accounts in which complete and correct entries will be made of its transactions relating to the Program and the Funds and Accounts established by the Indenture. Such books, and all other books and papers of the Bond Bank, and all Funds and Accounts will at all reasonable times be subject to the inspection of the Trustee and the owners of an aggregate of at least 5% in principal amount of Bonds then Outstanding or their representatives duly authorized in writing.

Before the twentieth day of each month following the end of a six-month period, commencing December 31, 2001, the Trustee will provide the Bond Bank with a statement of the amounts on deposit in each Fund and Account as of the first day of that month and the total deposits to and withdrawals from each Fund and Account during the preceding six-month period.

Preservation of Tax Exemption for the Bonds

In order to assure the continuing excludability of interest on the Bonds from the gross income of the owners thereof for purposes of federal income taxation, the Bond Bank covenants and agrees to take all actions and not to fail to take any actions necessary in order to preserve and protect such excludability. Additionally, the Bond Bank covenants and agrees not to take any action or refrain from taking any action with respect to the investment of the proceeds of the Bonds or the investment or application of any payments under any Advancement Agreement or any other agreement or instrument entered into in connection therewith or with the issuance of the Bonds, including but not limited to any obligation to rebate certain funds to the United States of America, that would result in any Bonds being characterized as "arbitrage bonds" or that would adversely affect the excludability from gross income for federal income tax purposes of interest on any Bonds.

Covenants Concerning the Program

In order to provide for the payment of the principal of and interest on the Bonds and any Program Expenses of the Bond Bank permitted to be paid under the Indenture, the Bond Bank will from time to time, promptly and in a sound and economical manner consistent in all respects with the Act, the Indenture and sound banking practices and principles (i) do all acts and things as necessary to receive and collect Revenues (including enforcement of the prompt collection of all arrears on all Advancement Payments), and (ii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgment of the Bond Bank to protect the rights of the Bond Bank with respect to the Advancement Agreements and to enforce all terms, covenants and conditions of the Advancement Agreements. Whenever necessary in order to provide for the payment of principal of and interest on the Bonds, the Bond Bank will also commence appropriate remedies with respect to any Advancement Agreement under which any School Corporation is in default. The Bond Bank is not required to take such actions noted herein if the Bond Bank provides the Trustee with a Positive Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies; provided, however, that all decisions as to the enforcement of particular remedies will be within the sole discretion of the Trustee.

Covenants with Respect to Advancement Agreements

With respect to the Advancement Agreements, the Bond Bank covenants as follows:

(a) To diligently enforce and take all steps, actions and proceedings reasonably necessary in its judgment to protect its rights with respect to any Advancement Agreement and to enforce all terms, covenants and conditions of the Advancement Agreements, and to enforce, authorize or require the enforcement of all remedies available to the Board of Education under any Advancement Agreement, unless the Bond Bank provides the Trustee with a Positive Cash Flow Certificate giving effect to the Bond Bank's failure to cause the enforcement of such remedies; provided, however, that all decisions as to the enforcement of particular remedies will be within the sole discretion of the Trustee.

(b) Not to permit or agree to any material change in any Advancement Agreement unless the Bond Bank first provides the Trustee with a Cash Flow Certificate giving effect to such change.

(c) Not to sell or dispose of any Advancement Agreement unless the Bond Bank first provides the Trustee with a Cash Flow Certificate giving effect to such sale or disposition.

Budgets

The Bond Bank will adopt and file with the Trustee and appropriate State officials under the Act an annual budget covering its fiscal operations for the succeeding Fiscal Year not later than June 30 of each year. The annual budget will be open to inspection by any Owner of Bonds. In the event the Bond Bank does not adopt an annual budget for the succeeding Fiscal Year on or before June 30, the budget for the preceding Fiscal Year will be deemed to have been adopted and be in effect for the succeeding Fiscal Year unless and until the annual budget for such Fiscal Year has been duly adopted. The Bond Bank may at any time adopt an amended annual budget in the manner then provided in the Act.

Defeasance and Discharge of Lien of Indenture

If payment or provision for payment is made to the Trustee of the whole amount of principal of and interest due and to become due on all of the Bonds then Outstanding under the Indenture, and if the Trustee receives all payments due and to become due under the Indenture, then the Indenture may be discharged in accordance with its provisions. In the event of any early redemption of Bonds in accordance with their terms, the Trustee must receive irrevocable instructions from the Bond Bank, satisfactory to the Trustee, to call such Bonds for redemption at a specified date and pursuant to the Indenture. Outstanding Bonds will continue to be a limited obligation of the Bond Bank payable only out of the moneys or securities held by the Trustee for the payment of the principal of and interest on the Bonds.

Any Bond will be deemed to be paid when (a) payment of the principal of that Bond, plus interest to its due date, either (i) has been made or has been caused to be made in accordance with its terms, or (ii) has been provided for by irrevocably depositing with the Trustee, in trust and exclusively for such payment, (1) moneys sufficient to make such payment, (2) Investment Securities within the meaning of Section 13.7(a) of the Indenture maturing as to principal and interest in such amounts and at such times, without consideration of any reinvestment thereof, as will insure the availability of sufficient moneys to make such payments, or (3) a combination of such moneys and Governmental Obligations, and (b) all other sums payable under the Indenture, including the necessary and proper fees and expenses of the Trustee pertaining to the Bonds, including any amounts required to be rebated to the United States of America, with respect to which such deposit is made have been paid or deposited with the Trustee.

Events of Default and Remedies

Any of the following events constitutes an "Event of Default" under the Indenture:

(a) The Bond Bank defaults in the due and punctual payment of the principal of (whether at stated maturity or on any date fixed for redemption) or interest on any Bond;

(b) The Bond Bank defaults in carrying out any of its other covenants, agreements or conditions contained in the Indenture or in the Bonds, and fails to remedy such Event of Default within 60 days after receipt of notice of such default by the Trustee, all accordance with the Indenture;

(c) Any warranty, representation or other statement by or on behalf of the Bond Bank contained in the Indenture, or in any instrument furnished in compliance with or in reference to the Indenture, is false or misleading when made, in any material respect, and there has been a failure to remedy such Event of Default within 60 days after receipt of notice of such Event of Default, all in accordance with the Indenture;

(d) The Bond Bank fails to make remittances required by the Indenture to the Trustee within the time limits prescribed in the Indenture;

(e) A petition is filed against the Bond Bank under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect and is not dismissed within 60 days after such filing;

(f) The Bond Bank files a petition in voluntary bankruptcy or seeking relief under any provisions of any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law of any jurisdiction, whether now or hereafter in effect, or consents to the filing of any petition against it under such law;

(g) The Bond Bank is generally not paying its debts as such debts become due, or becomes insolvent, bankrupt, or makes an assignment for the benefit of creditors or a liquidator or trustee of the Bond Bank or any of its property is appointed by court order or takes possession and such order remains in effect or such possession continues for more than 60 days;

(h) The Bond Bank is rendered incapable of fulfilling its obligations under the Indenture for any reason.

Upon the occurrence and continuance of an Event of Default, the Trustee will notify the Owners of all Outstanding Bonds of such Event of Default by registered or certified mail and will have the following rights and remedies:

(a) The Trustee may pursue any available remedy at law or in equity to enforce the payment of the principal of and interest on Bonds outstanding under the Indenture, including any and all such actions arising under, or by reason of, the Advancement Agreements;

(b) The Trustee may by action at law or in equity require the Bond Bank to account as if it were the trustee of an express trust for the Owners of the Bonds, and may then take any action with respect to the Advancement Agreements as the Trustee deems necessary, appropriate and in the best interest of the Owners of Bonds, subject to the terms of the Advancement Agreements;

(c) Upon the filing of a suit or other commencement of judicial proceedings to enforce any rights of the Trustee and of the Bondholders under the Indenture, the Trustee will be entitled, as a matter of right, to the appointment of a receiver or receivers of the Trust Estate under the Indenture and of the Revenues, issues, earnings, income, products and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer; and

(d) By notice to the Bond Bank and the Attorney General of the State, the Trustee may declare the principal of and accrued interest on all Bonds then Outstanding to be due and payable immediately in accordance with the provisions of the Indenture and the Act.

If an Event of Default has occurred, if requested to do so by the Owners of 25% or more in aggregate principal amount of the Bonds then Outstanding under the Indenture, and if indemnified as provided in the Indenture, the Trustee will be obligated to exercise one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by counsel, deems most expedient in the interest of the Owners of the Bonds.

The Owners of a majority in aggregate principal amount of the Bonds then Outstanding under the Indenture will have the right, at any time during the continuance of an Event of Default, by a written instrument or instruments executed and delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture, or for the appointment of a receiver or any other proceedings under the Indenture. However, such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture.

Waivers of Events of Default

At its discretion, the Trustee may waive any Event of Default and its consequences and may rescind any declaration of maturity of all the Bonds, and must do so upon the written request of the Owners of (a) two-thirds in aggregate principal amount of all Bonds then Outstanding in the case of default in the payment of principal or interest on the Bonds or (b) more than one-half in aggregate principal amount of all Bonds then Outstanding in the case of any other Event of Default. However, there may not be waived (i) any Event of Default in the payment of the principal of any Bond then Outstanding under the Indenture at the specified date of maturity or (ii) any Event of Default in the payment when due of the interest on any Bond then Outstanding under the Indenture unless, prior to the waiver, all arrears of interest or principal due, as the case may be, with interest on overdue principal at the rate borne by such Bond, and all expenses of the Trustee in connection with the Event of Default have been paid or provided for. In case of any such waiver or rescission, or in case any proceeding taken by the Trustee on account of any such Event of Default shall have been discontinued or abandoned or determined adversely, then the Bond Bank, the Trustee and the Owners of Bonds will be restored to their former respective positions and right under the Indenture. No waiver or rescission will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Rights and Remedies of Owners of Bonds

No owner of any Bond will have any right to institute any suit, action or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or for any other remedy under the Indenture, unless (a) an Event of Default has occurred and the owners of not less than 25% in aggregate principal amount of Bonds then Outstanding have made written request to the Trustee and have offered the Trustee reasonable opportunity either to proceed to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name, (b) such Owners of Bonds have offered to indemnify the Trustee, as provided in the Indenture, and (c) the Trustee has refused, or for 60 days after receipt of such request and offer of indemnification has failed, to exercise the remedies granted in the Indenture or to institute such action, suit or proceeding in its own name. All proceedings at law or in equity must be carried out as provided in the Indenture and for the equal benefit of the Owners of all Outstanding Bonds. However, nothing contained in the Indenture will affect or impair the right of any Owner of Bonds to enforce the payment of the principal of and interest on any Bond at and after its maturity, or the limited obligation of the Bond Bank to pay the principal of and interest on each of the Bonds to the respective Owners of the Bonds at the time and place, from the source and in the manner expressed in the Bonds.

Supplemental Indentures

The Bond Bank and the Trustee, without the consent of or notice to any of the Bondholders, may enter into an indenture or indentures supplemental to the Indenture for any one or more of the following purposes:

(a) To cure any ambiguity, formal defect or omission in the Indenture;

(b) To grant to or confer upon the Trustee for the benefit of the Owners of Bonds then Outstanding any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Owners of Bonds or the Trustee or either of them, or to make any change which, in the judgment of the Trustee exercised in accordance with the standards under the Indenture does not materially and adversely affect the interests of the Bondholders;

(c) To subject to the lien and pledge of the Indenture additional Revenues, properties or collateral;

(d) To modify, amend or supplement the Indenture or any supplemental indenture in order to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the federal and State securities laws, and, if the Bond Bank and the Trustee so determine, to add to the Indenture or to any supplemental indenture such other terms, conditions and provisions as may be permitted or required by the Trust Indenture Act of 1939, as amended, or similar federal or State statute; provided that any supplemental indenture shall not, in the judgment of the Trustee, be to the prejudice of any of the Owners of the Bonds;

(e) To provide for the issuance of bearer bonds in exchange for the fully registered Bonds originally authorized to be issued under the Indenture and to provide all necessary and appropriate supplements to the Indenture in connection therewith, provided however that no such supplements will be permitted unless there first has been filed with the Trustee and Bond Bank an unqualified Opinion of Bond Counsel to the effect that any such issuance of bearer bonds shall not have the effect of causing the interest on any Bonds to cease to be excluded from gross income for purposes of federal income taxation;

(f) To give evidence of the appointment of a co-trustee, successor Trustee, successor Bond Registrar, or successor Paying Agent;

(g) To effect or facilitate the issuance of Refunding Bonds in accordance with the Indenture; and

With the exception of supplemental indentures for the purposes set forth in the preceding paragraph and subject to the terms of the Indenture, the Owners of not less than a majority of the aggregate principal amount of the Bonds then Outstanding which are affected (other than Bonds held by the Bond Bank) will have the right from time to time to consent to and approve the execution by the Bond Bank and the Trustee of any supplemental indenture or indentures deemed necessary and desirable by the Bond Bank or the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Indenture or in any supplemental indenture. However, no supplemental indenture may permit or be construed as permitting, without the consent of the Owners of all Bonds then Outstanding under the Indenture, (a) an extension of the stated date for maturity or redemption or a reduction in the principal amount of or redemption premium, or reduction in the rate or extension of the time of payment of the interest on, any Bonds, or (b) the creation of any lien on the Trust Estate or any part thereof pledged under the Indenture prior to or on a parity with the lien of the Indenture other than a lien ratably securing all of the Bonds Outstanding under the Indenture, or (c) a reduction in the aggregate principal amount of the Bonds the Owners of which are required to consent to such supplemental indenture, or (d) the creation of a privilege, priority or preference of any Bond or Bonds over any other Bond or Bonds, or (e) any amendment or modification of the trusts, powers, obligations, remedies, rights, duties or immunities of the Trustee without the written consent of the Trustee.

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APPENDIX G

SUMMARY OF CERTAIN PROVISIONS OF THE ACQUISITION AGREEMENT

The following is a summary of certain provisions of the Acquisition Agreement. This summary is qualified in its entirety by reference to the Acquisition Agreement.

Parties

The principal parties to the Acquisition Agreement are the Bond Bank, as purchaser of the Advancement Agreements, and the Board of Finance as seller of the Advancement Agreements. The Board of Education and the Treasurer of the State are also parties to the Acquisition Agreement for the purpose of making the representations and covenants more particularly described below.

Purpose

The Acquisition Agreement provides for the sale of the Advancement Agreements as more particularly described therein and in Appendix A to this Official Statement by the Board of Finance to the Bond Bank. In addition, the Board of Education and the Treasurer of the State each covenant to take certain actions more particularly described below relating to the Advancement Agreements.

Representations

The parties to the Acquisition Agreement make to and for the benefit of each other various representations relating principally to the authority to enter into the Acquisition Agreement and to undertake the covenants made therein by each of the parties thereto.

Covenants

The Treasurer of the State and the Board of Education agree and covenant with the Bond Bank that they and each of them, as appropriate, will:

(a) Provide to the Bond Bank all information, financial and otherwise, reasonably requested by the Bond Bank and in their possession relating to each Advancement Agreement, to each School Corporation that is a party to each Advancement Agreement, to the common school fund generally and to any other matter material to the Bonds;

(b) Fully support and cooperate in obtaining all legislative and administrative actions to maintain in force the prohibition against the prepayment of amounts due from borrowing School Corporations under the Advancement Agreements to the maximum extent allowable by law;

(c) As specifically requested by the Bond Bank from time to time, take all actions in the best interest of the Bond Bank relating to and exercise for the benefit of the Bond Bank to the maximum extent permissible under the Indiana Code, all rights (including without limitation the rights set forth in Indiana Code 21-1-5-5) and options available under the Indiana Code relating in any way to (i) the withholding by any of them of funds of the State due any School Corporation that is a party to an Advancement Agreement; (ii) the collection of amounts due from such School Corporation by reason of being a party to an Advancement Agreement; and (iii) the remittance and payment of such amounts to the Bond Bank by reason of its purchase and ownership of the Advancement Agreements, which remittance and payment is to be made in a manner and at such times as is consistent with the manner and times that similar funds are remitted or paid by the State to School Corporations generally, but in all events not later than the first day of each January 1 and July 1 beginning on the first January 1 or July 1 after the acquisition of the Advancement Agreements by the Bond Bank;

(d) Treat and regard at all times the Bond Bank in its capacity as owner of the Advancement Agreements as having a claim to funds of the State that is prior and superior to any claim of any party to such funds under any agreement similar to an Advancement Agreement in acknowledgment that the position, status and rights of the Bond Bank are prior and superior to those of the parties and signatories of the Acquisition Agreement and to any claim or rights of any other division, department, agency or instrumentality of the State;

(e) Use at all times the proceeds of the issuance and sale of the Bonds to make additional advancements to School Corporations for the purpose of assisting such School Corporations with their construction projects, their acquisition of technology equipment, or otherwise as permitted and allowed by the Constitution and statutes of the State. Such proceeds will, at all times consistent with sound management practices and fiscal prudence and to the extent legally permissible, be expended as expeditiously as is possible and, in any event, prior to the expenditure of any other funds of the State available for such purpose. All such proceeds will, pending their expenditure, be held separate and segregated from other funds of the State and will be subject during such period to investment as allowable by law. The Treasurer of the State will maintain detailed records in accordance with usual and customary practice as to such funds and in particular the disbursements and expenditures of such funds and the investment income allocable to such funds and will make such records available to the Bond Bank;

(f) Take all actions and not omit to take any action within their control and requested by the Bond Bank that is necessary or appropriate to confirm and maintain the tax exempt status of the Bonds, including all such actions required by Section 148 of the Code and the Treasury Regulations promulgated in furtherance thereof.

(g) Do all things and take all actions reasonably requested by the Bond Bank for the purpose of confirming, securing and documenting the rights of the Bond Bank under the Acquisition Agreement and the rights, status and position of the holders of the Bonds as beneficiaries and assignees of the rights of the Bond Bank thereunder.

Term

The rights and obligations of the parties under and by reason of the Acquisition Agreement extend until such time as all of the advancement Agreements have been paid in full.